ANNUAL REPORT 2017

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BRIGHTNESS IN INTEGRATION

2016 - 2017
ANNUAL REPORT

His Highness

Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah

The Amir of the State of Kuwait

His Highness

Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah

The Crown Prince

Essam Abdulmohsen Al-Marzouq

His Excellency Minister of Oil and Minister of Electricity and Water

Chairman of the Board of Directors Kuwait Petroleum Corporation

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KPC's Board of Directors

Essam Abdulmohsen Al-Marzouq
Minister of Oil and Minister of Electricity and Water
Chairman of the Board of Directors Kuwait Petroleum Corporation

Nizar Mohammed Al-Adsani
Deputy Chairman and CEO, KPC

Abdulghaffar Al-Awadhi
Member of the Board of Directors

Khaled Saleh Bouhamra
Member of the Board of Directors

Sami Al-Rushaid
Member of the Board of Directors

Wael Al-Asousi
Member of the Board of Directors

Abdulmajeed Al-Shatti
Member of the Board of Directors

Abdulmalek Al-Gharaballi
Member of the Board of Directors

Mufreh Al-Shammari
Member of the Board of Directors

Chairman's Message

The achievements made this year came thanks to God Almighty, and as a result of the harmony between Kuwait Petroleum Corporation (KPC) and its subsidiaries.

On behalf of myself, and the Members of the Board of Directors of KPC, I would like to express gratitude and appreciation to oil sector employees across all departments and it is my privilege to present to you the annual report and consolidated financial statements of KPC and its subsidiaries for the year 2016/ 2017.

Amidst the accelerating developments in local and international oil markets, competitiveness intensifies. Therefore, from a strategic perspective, we are required to double our efforts

to help sustain and bolster our country's status in the oil market and meet future market demands.
The markets' competitive environment, coupled with the change in demand patterns and the need to maintain markets by taking advantage of opportunities via building strategic partnerships, has led us to expand the activities of KPC and its subsidiaries locally and globally. We aim to support the state's development plan and strategies to simulate the national economy, while committing to social responsibility in Kuwait. Therefore, we continue executing our projects and enhancing business methods to achieve the best value for the Kuwaiti hydrocarbon resources.

KPC and its subsidiaries made great achievements in 2016, which resulted from continued, high-spirited and dedicated efforts to ensure that the sole source of national income retains its leadership status. Thanks to these efforts, we were able to increase crude production to 3,150 million barrels a day and keep pace with the strategic plans.

We are proud of the achievements made during the fiscal year 2016 – 2017 and are mentioned in this report, which include completing the installation of all mechanical units of the Vietnam refinery and petrochemicals complex, while safe operation for all of the project's production units is in progress to reach maximum capacity.

It is worth mentioning that all supporting units have successfully been operated during the past period, and this will be followed by operating the main units.

Shares purchase and partnership agreements were signed for the project to build a refinery with an estimated capacity of 230,000 barrels a day in Duqm, Oman.
Meanwhile, the Petrochemical Industries Company (PIC) made a new achievement through the acquisition of 25% of the 'SK Advanced' Saudi-Korean partnership project for propylene production. The propylene plant was launched on May 14, 2016 with a total production capacity of 105% compared to the designed capacity of 600,000 tons a year.
Furthermore, a detailed feasibility study was completed to build a petrochemicals' complex in Alberta, Canada, among other projects in the United States and Bahrain.

In the meantime, the Kuwait Foreign Petroleum Exploration Company (KUFPEC) added new oil reserves estimated at 22 million barrels of oil equivalent, after reviewing the 2015 reserves and 2016 operations of acquisition, exploration and development. As a result, the confirmed reserves reached around 452 million barrels of oil equivalent by the end of 2016.

And following instructions of His Highness the Amir and KPC to reduce electricity consumption by generating 15% of power via renewable energy, the company carried out a study to take advantage of solar power, which resulted in saving more than 34% of electricity by installing solar panels on the roof of the head office building, and the project will be completed during the fiscal year 20172018-. Furthermore, a feasibility study was completed to build a photovoltaic power station that helps provide energy to Kuwait's electricity grid.
On the local level, the Kuwait Integrated Petrochemical Industries Company (KIPIC) was established on October

18, 2016 with an estimated authorized capital of KD 1.8 billion. The board of directors was established, and works are currently ongoing to appoint the executive management members.

The crude oil isolation program was executed in order to be able to export four kinds of crude, which are the Kuwaiti export crude, heavy oil (Lower Faris and Um Naqa), medium heavy oil (Ratawi and East Qudair), and light oil, compared to the current capacity to export only a single kind of crude (Kuwaiti export crude).

With regards to existing projects, work is currently progressing on schedule to execute the Zour Refinery, as works to prepare the project's land were completed in August 2016, while construction works are currently ongoing. The same can be said about the Clean Fuel Project, which was 82.5% complete by the end of March 2017.

As for international marketing, all annual 'FOB' contracts for 2017 were renewed for jet fuel producers and 500 ppm gasoil, amidst fierce competition with other providers to maintain market shares and achieve a competitive price premium, while adding several clauses pertaining with amounts and dealing with variables.

Moreover, the Kuwaiti crude oil contracts were increased in the Asian market despite the fierce competition there, as well as the Mediterranean market via the Sumed storage system in Sidi Kirayr, Egypt.

Productive cooperation and coordination continues with Kuwait National Petroleum Company (KNPC) to produce the largest amount possible of 500 ppm gasoil as per clients' demands and in accordance with the local markets' demands starting from January 2017. This achievement helped us renew contracts with our clients and keep them despite the fierce

competition in nearby markets.

As for our long-term efforts, we started setting up our priorities, and the main priority to achieve this strategy is growing oil reserves to guarantee sustainable production according to the strategic plan, taking advantage of the latest technologies to boost the oil production capacity, expanding in the utilization of solar power to reduce carbon emissions, reducing gas combustion at all KPC activities, developing natural gas reservoirs in Kuwait, and applying a special performance in health, safety, security and the environment in the oil sector. We also offer our staff the best training opportunities to improve their leadership or professional skills, and encourage continuing education.

In addition, we encourage speeding up refinement and petrochemical projects inside and outside Kuwait, developing high-level professional relations with our clients and expanding them based on strategic partnerships to enhance operational excellence, thus helping maintain our markets and provide flexibility in a highly competitive world. And living up to our social responsibility, we offer active contributions towards KPC and the society by providing job opportunities to the Kuwaiti youth, as the number of Kuwaitis' appointments reached 1,199 by the end of the fiscal year 2016 - 2017.

In the end, I would like to thank His Highness the Amir, His Highness the Crown Prince and His Highness the Prime Minister for their continued support to the oil sector, which drives its journey towards further success and development.

Essam Abdulmohsen Al-Marzouq

Minister of Oil

And Minister of Electricity and Water

Chairman of the Board of Directors

Of Kuwait Petroleum Corporation

Introduction

The oil sector continues striving towards keeping up with the accelerating changes in global oil markets, which are dominated by the slowing growth of global economy despite the limited recovery compared to last year.

The oil sector managed through careful deliberation of the current markets to predict the wisest steps that were taken to deal with a future that carries numerous fluctuations. The year 2016 witnessed the crowning of these efforts through the completion of mega projects and moving forward in others.

This serves as a testament to the commitment of the oil sector's management to continue pursuing leadership and maintaining its position as an influential force in the national and international economy. Therefore, it became necessary to merge the refinement and petrochemical sectors as the best solution to face the coming changes; an achievement that was realized through the establishment of the Kuwait Integrated Petrochemical Industries Company (KIPIC) under the umbrella of Kuwait Petroleum Corporation (KPC), with the goal of achieving integration between Al-Zour Refinery, petrochemicals complex and liquefied natural gas (LNG) facilities.

KPC

The Financial Performance

For the fiscal year that ended on March 31, 2017

The consolidated revenues collected by KPC and its subsidiaries reached KD 20,208.8 million during the fiscal year that ended on March 31, 2016, including KD 19,102.1 million in revenues of commercial activities and KD 1,131.8 million in other revenues. Meanwhile, the consolidated expenditure reached KD 18,908.4 million.

The consolidated profits reached KD 1,325.5 million (compared to KD 1,253.8 million in 2014 – 2015), including KD 445.8 million in operational profits (compared to KD 726.3 million in 2014 – 2015), and KD 442 million in investment revenues (compared to KD 429.3 million in 2014 – 2015).

The return on the average invested capital reached 5.4% (5.7% in 2014 – 2015), while the average return on equity reached 5.8% (5.9% in 2014 – 2015).

Total assets reached KD 34,787.4 million (compared to KD 33,711.9 million in 2014 – 2015).

Total equity reached KD 23,687.5 million (compared to KD 22,336.8 million in 2014 – 2015), recording a KD 1,350.7 million as a result of a KD 1,323 million increase in the general reserve due to retaining the fiscal year's profits, increasing the reserve for replacement and renovation of property, plant and equipment by KD 314 million, raising non-controlling interests by KD 15.1 million, increasing the re-measurement of the reserve of a specific benefit obligation by KD 3.3 million, in addition to the decrease in the foreign currency exchange reserve by KD 123.4 million, and in the net change in fair value by KD 181.3 million.

KPC managed to finance its current capital projects program via outside and self-financing sources. Investment in fixed assets during the fiscal year reached KD 3,434.1 million compared to KD 2,843.9 in the fiscal year 2014 – 2015.

Global Marketing

Taking Leadership despite Challenges

The marketing department seeks to maximize the value of hydrocarbons amid fierce competition from other suppliers in order to keep its market shares, achieve a competitive price premium, while renewing contracts with our clients. The following has been achieved this year:

• All annual 'FOB' contracts for 2017 were renewed for jet fuel producers and 500 ppm gasoil.

• The Kuwaiti crude oil contracts were increased in the Asian market despite the fierce competition there, as well as the Mediterranean market via the Sumed storage system in Sidi Kirayr, Egypt.

• Ships fuel sales increased by around 20%, and more clients were attracted using the 'Hadiya' ship as a floating tank for easier refueling.

• Signing a semi-annual sales deal with a Saudi company for methyl tert-butyl ether (MTBE), in order to avoid the spot market price volatility for the product.

• KPC increased its share in the Chinese market by signing a new long-term contract to export LNG to a company with amounts varying between 264,000 and 352,000 metric tons of propane a year, to be used in the petrochemicals plant, in order to secure a long-term outlet for LNG.

• An estimated $460 million were saved during the summer of 2016 by importing LNG to meet the Ministry of Electricity and Water's needs, instead of diesel combustion.

• Productive cooperation and coordination with Kuwait National Petroleum Company (KNPC) to produce the largest amount possible of 500 ppm gasoil as per clients' demands and in accordance with the local markets' demands starting from January 2017. This achievement helped us renew contracts with our clients and keep them despite the fierce competition in nearby markets.

• Conducting marketing support projects (MSP) in coordination with Kuwait Petroleum International (KPI) in order to cement KPC's position in growing markets, and connecting those projects with long term contracts for crude and petroleum products.

• The Kuwait Aviation Fuelling Company (KAFCO) signed an agreement to supply the Amiri Diwan's fleet with jet fuel in international airports in agreement with international fueling companies as global suppliers. Three million liters of jet fuel were supplied to the Amiri Diwan's fleet in international airports from the first of April 2016 until the end of February 2017.

• Three new contracts were signed to supply jet fuel with three new airlines at Kuwait International Airport.

• A contract with the Ministry of Defense to maintain and operate external gas stations and substations, tanks and motors was renewed.

• Refueling aircrafts at Ahmad Al-Jaber and Ali Al-Salem air bases.

• A contract to refuel helicopters with the Ministry of Interior was renewed.

Upstream

Maintaining Excellence

Kuwait Petroleum Corporation (KPC), represented by Kuwait Oil Company (KOC), managed to increase oil production to 3,150 million barrels per day. Meanwhile, efforts continue to achieve progress that can lead to realizing the goals mentioned in the company's strategy. And to achieve that goal, the company made a number of achievements:

• The number of towers used for drilling and maintenance of wells was increased to 130, compared to 97 last year. This is considered an unprecedented growth in the history of KOC.

• The heavy oil production station at Um Naqa was opened with a production capacity of 15,000 barrels per day.

• Non-associated gas production rates reached around 208 million cubic feet a day in March 2017; a record level made for the first time since its production started, after the completion of the comprehensive maintenance plan and increasing production capacity at the early production unit EPF – 50.

• The engineering design process for the Jurassic gas project (JGF I) was completed, while approval was obtained from KPC's board of directors to allocate the related budget. This project shall contribute to achieving KOC's strategic goals.

• A complete evaluation was completed for oil reserves at the Greater Burgan Field, in cooperation with a global consultant. Best practices and latest data in oil reserve evaluation were used during this two-year process, which resulted in revealing large increases in the volume of reserves that will help extend the age of this strategic field for many years to come.

• Two new oil fields were discovered; Arfajiya in northeast of Kuwait and Sukhaibriyat in north of Kuwait, which join the northern fields as a new Jurassic field, and boost the country's oil and gas reserves.

• Promising amounts of oil were discovered in the Ratawi Limestone and Minagish reservoirs, as well as the Zubair reservoir in Bahrah Field, which will increase opportunities to boost commercial production in the future and increase the oil reserves in North Kuwait operations zone.

• Five new exploration reservoirs

(east and west of Ratqa at the Faris lower reservoir, Mawdood reservoir at Bahrah Field, Al-Marat reservoir at Burgan Field, the Najma – Sarjello reservoir at Kahloula Field) were transformed into field development groups for future contribution in production increase.

• The monitoring plan was activated to perform the first non-thermal project to enhance oil recovery in the Minagish oolitic reservoir in the West Kuwait operations zone, using gas absorbable with oil to improve oil reserves and ensure sustainable production.

• The low salinity water injection technology with polymers was successfully applied using the single well chemical tracer test at the Wara Burgan reservoir at the South and East Kuwait Operations Zones, in order to boost its efficiency in oil recovery.

• The new Stim Tube technology was successfully used to stimulate the casing-damaged well. This technology enhanced the well's performance, started oil flow and made it into a producing well, which led to achieving the best oil production rate ever from this well.

• Successful test of heavy oil enhancement from the Burgan reservoir, using a technology of injecting chemicals that help enhance the quality of crude oil and change viscosity properties at the well (BG-0665). The well was restarted with a daily capacity of 300 barrels of heavy oil a day. A study is currently ongoing to apply this project on the entire reservoir.

• And to achieve maximum benefit from the produced gas and reduce the gas combustion rate, Kuwait Gulf Oil Company (KGOC), a subsidiary of KPC, is currently carrying out a project to build a pipeline to transport Kuwait's share of gas from the Khafji joint venture to the Ahmadi Refinery. The project is 83% complete.

• Maintenance was performed at 67 wells and around 1,800 well insurance and protection operations at the Wafra joint venture. Furthermore, an under-development well (K-315H) was finished and maintenance was done to 28 wells at the Khafji joint venture.

• As part of the company's efforts to maintain crude's quality, the cathodic protection system was performed for the 16›› Eocene line from Wafra to the Mina Abdullah Refinery.

• As part of the company's efforts for best exploration at the land divided zone of the Wafra joint venture, the data for the three-dimensional seismic survey for the entire targeted area have been registered.

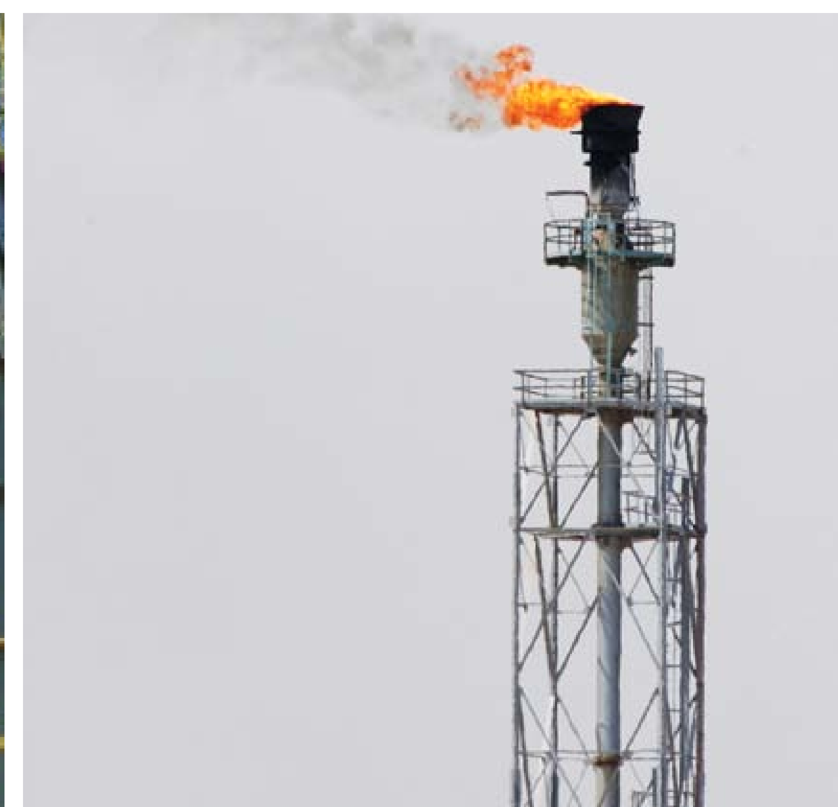
Foreign Petroleum Exploration & Maximizing Resources

In accordance with its strategic directions, KPC, represented by Kuwait Foreign Petroleum Exploration Company (KUFPEC), acquired three new projects that were added to its asset portfolio:

- The (PL-850) exploration project in Norway – 20% share.
- The (SK410B) exploration project in Malaysia – 42.5% share.
- Acquisition of seven oil and gas assets in the Norwegian continental shelf (three producing, two under development and two exploration).
- The company added new oil reserves estimated at 22 million barrels of oil equivalent after reviewing the 2015 reserves and adding the 2016 upstream operations and acquisitions. The total confirmed reserves reached around 452 million barrels of oil equivalent by the end of 2016.
- The final results for the best financial structure study for the company, prepared by Deutsche Bank, were approved, while implementation has commenced.
- Progress has been achieved by 92% in development operations in the Wheatstone Project for liquefied natural gas (LNG) in Australia. Meanwhile, 28 development/evaluation wells were drilled in the Kaybob project for condensates-rich shale gas in Alberta, Canada, while nearly 14 million barrels of oil equivalent of confirmed reserves were added as a result of drilling operations and connecting them with current production lines.

- The completion of the plan to send a Kuwait National Petroleum Company (KNPC) employee to Australia for the second consecutive year, while delegating a Kuwait Gulf Oil Company (KGOC) staff member to Canada. Both delegates worked directly with experts from Chevron; a global leader in the oil industry, which helps improve their professional and technical skills.

- The company reprinted extra copies of its illustrated book for coral reefs and marine life monitoring, in order to meet the growing demand on the book; the first of its kind in Kuwait and which has been popular since its first release in October 2015.



Downstream

Maximizing Value

We strive to increase the refinement capacity to around 1.4 million barrels a day in the medium term. This is one of KPC's most important general strategic directions in the downstream industry inside Kuwait as we move steadily towards executing a number of strategic projects.

• Al-Zour Refinery Project

It is considered a major strategic oil project in Kuwait to meet the growing demand of power plants on low-sulfur fuel oil (less than 1% sulfur). Kuwait National Petroleum Company (KNPC) managed to complete 28% of the project by the end of March 2017, as works to prepare the project's land were completed in August 2016, while construction works have been commenced.

• The Third Olefins and Second Aromatics Integrated Project with Al-Zour Refinery

Amec Foster Wheeler won the project's tender, acting as a manager and consultant to carry out the Front End Engineering Design (FEED), on December 29, 2016. A meeting to commence business took place on February 28, 2017. Meanwhile, technology licensors are currently being evaluated.

• Clean Fuel Project

This project puts Kuwait among the countries that possess one of the most modern refineries in the downstream industry. The main goal of this project is to develop and expand the Ahmadi Refinery which will have its capacity increased to 346,000 barrels a day, and the Mina Abdullah Refinery which will have its capacity increased to 454,000 barrels a day, thus increasing the total capacity of both refineries to 800,000 barrels a day. The project was 82.5% complete by the end of March 2017.

Meanwhile, the company signed in April 2016 the first tranche of contracts to finance the Clean Fuel Project with Kuwaiti banks at a total value of KD 1.2 billion. The National Bank of Kuwait (NBK) and Kuwait Finance House (KFH) were appointed as mandated lead arrangers in order to prepare the first tranche of the financing process. In the meantime, work is in **progress to** complete the project's financing through the 'second tranche' in US Dollar via Export Credit Agencies (ECA).

Also, comprehensive maintenance operations were completed at Mina Abdullah Refinery, which included complete preventive maintenance for three main units: the crude oil distillation unit, the kerosene processing unit and the ISOMAX unit. During this operation, all equipment was inspected, and links of the Clean Fuel Project were fixed, while the precision machinery system was upgraded.

In addition, Hydrocarbon Processing magazine selected the Clean Fuel Project as the best downstream project in 2016 in terms of its influential effect on the petroleum and petrochemical industries regionally and globally.

• The fifth train for the liquefaction of petroleum gas (LPG)

It was designed with a capacity of 805 million standard cubic feet a day, and 106,000

barrels of condensers a day, in accordance with the KPC Strategic Directions of increasing the production of associated and non-associated gas, and in order to achieve best utilization of gases produced from upstream operations. The project has been 51% complete by the end of March, and is scheduled to be finished in July 2019.

- **Project to build imported LNG terminals in Al-Zour**

Kuwait National Petroleum Company (KNPC) signed the engineering, import and construction contract as part of efforts to achieve the 2030 KPC Strategic Plan with regards to meeting the local market's long-term demand for fuel. Liquefied natural gas (LNG) terminals will be built with a capacity of 3,000 billion BTU/day to feed the local network. The project was 11% complete by the end of March 2017.

- **Project to build 100 fuel stations**

A contract was signed to build 19 new gas stations as part of a plan to build 100 new stations according to the latest technologies, and in a way that reflects an advanced look while taking into account applying the renewable energy concept. This comes as part of KPC's directions to provide a sufficient number of gas stations in order to meet future demand for fuel as a result of the urban expansion that the country is witnessing.

TK-001

Downstream Outside Kuwait

As part of the general strategic directions for downstream, which stipulate expanding the refining capacity outside Kuwait through Kuwait Petroleum International (KPI) to guarantee a safe outlet for Kuwaiti oils, KPI carries out several projects abroad and enters partnerships with major international companies. Among these projects are:

1. **The Vietnam Refinery and Petrochemicals Complex:** All of the project's mechanical units have been installed. Meanwhile, safe operation is currently in progress for all of the project's producing units to reach maximum capacity, while commercial operation is expected as soon as possible. It is worth mentioning that the supporting units have all been operated successfully, which will be followed by operating the main units.
2. **A company for retail operations was established in Vietnam** in cooperation with Japan's Idemitsu Kosan, named 'IQ8'.
3. **Retail marketing operations started inside Vietnam with the strategic partner Idemitsu Kosan** by establishing five stations at the present time as part of a retail stations network to cover the needs of the local market.
4. **A lubricants factory (Q8Oils)** was opened in Antwerp, Belgium. One of Europe's most modern factories, it has a production capacity of 125 million barrels a day.
5. **The company achieved** the highest profits in its history on jet fuel sales (Q8Aviation). It sold jet fuel at various airports around the world, and maintained its position as Europe's largest jet fuel supplier.
6. **Eighteen automatic stations** were acquired in Belgium (Van Reet).
7. **A technical services provider contract** was signed between the company and Singapore's Changi Airport.
8. **KPR&T presented a training program on petroleum statistics** for KPC and KNPC employees.
9. **A refining and petrochemicals complex** was established in Duqm, Oman.
10. A **Memorandum of Understanding** was signed between Kuwait Petroleum International (KPI) and Oman Oil Company (OOC) in November 9, 2016 to build a refining and petrochemicals complex in Duqm, Oman.

Petrochemicals

Continuing Progress

Kuwait Petroleum Corporation (KPC), represented by the Petrochemical Industries Company (PIC), achieved actual profits estimated at KD 130 million for the fiscal year 2017-2018, marking a KD 23 million increase compared to the approved budget of KD 107million.

PIC made a new achievement when it acquired 25% of the SK Advanced Saudi-Korean partnership project. The propylene plant was launched in May 14, 2016 with a production capacity that reached 105% compared to the designed capacity of 600,000 tons a year. It is worth mentioning that SK Advanced imports the largest part of feedstock from KPC. This partnership made an estimated KD 2.6 million in financial returns for PIC by the end of the fiscal year 20162017-, which was unexpected in the first year of operation.

• **Kuwait Aromatics Company (KARO)**
Made KD 57.3 million profits by the end of the 2016 fiscal year, up by 187.62% compared to the approved budget.

• **Kuwait Paraxylene Production Company (KPPC)**
A wholly-owned company by KARO, KPPC made record profits of KD 38 million by the end of the 2016 fiscal year, which is considered among the highest profits recorded since the start of operation.

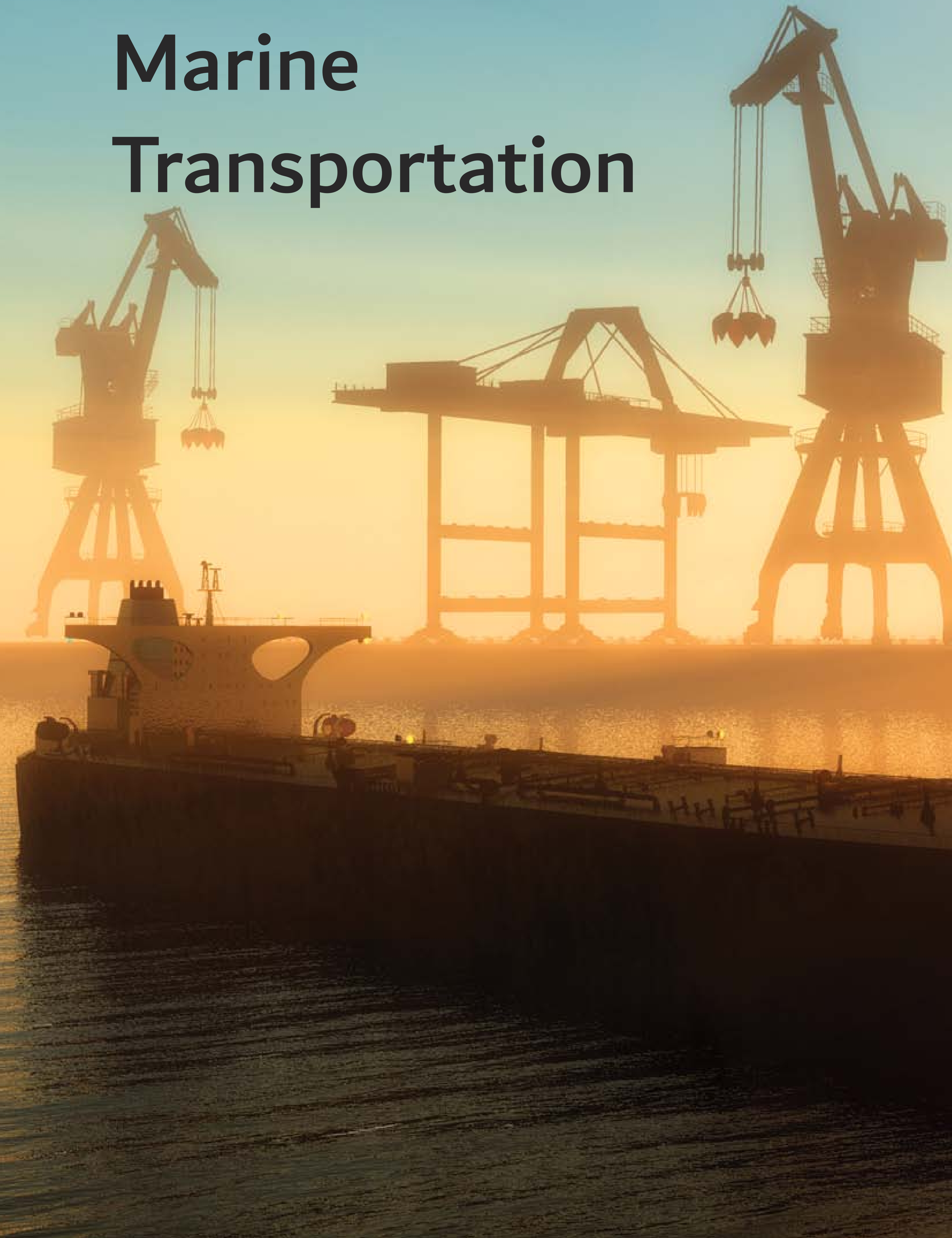
• **The Kuwait Styrene Company (TKSC)**
TKSC, in which KARO owns a 57.5% stake, made KD 33.81 million profits by the end of the 2016 fiscal year, up by 125% compared to the approved budget.

• **Project to build a joint aromatics complex in Bahrain, in partnership with the Bahrain Petroleum Company (BAPCO)**
• The Front End Engineering Design (FEED) study was completed in July 31, 2016.
• Work is currently in progress in coordination with the Bahraini side to sign the agreements for the feedstock and byproducts between the refinery and petrochemicals' plant.

• **Project to build a petrochemicals' complex in the United States to produce ethylene glycol (EG)**
The goal from this project is to produce 750 tons of ethylene glycol (EG) a year in the US Gulf Coast through PIC's partnership with ME Global.
1. The Front End Engineering Design (FEED) study was completed in June 15, 2016.
2. An Engineering, Procurement, and Construction (EPC) contract was signed with Mr. Jacobs in October 5, 2015.
3. Seven PIC employees were loaned to work with the project's team to earn experience in projects execution.
4. Operation is expected in October 2019.

• **Investment opportunity in the United States**
Initial evaluation was completed to acquire a share of specialized petrochemicals' plants. Approval was obtained from PIC's board of directors to go ahead with the project, present a non-binding contract and start the due diligence.

Marine Transportation



Cruising into New Horizons

Our huge naval fleet transports the goods of our land to the world. The 2030 KPC Strategic Directions stipulate maintaining the volume and quality of the fleet to meet the long-term strategic cover and marketing needs of crude, petroleum products and LNG tankers, in accordance with the targeted production rates inside Kuwait. Therefore, and reflecting our keenness to present the best gas cylinder distribution service, a new type of commercial guarantee, easy-to-remove covers was introduced for LNG cylinders, which have recently been introduced to gradually replace cylinders with plastic covers.

Integration between Refinement & Petrochemicals

Diversifying Sources of Income

Kuwait Petroleum Corporation (KPC) proceeded in plans to achieve integration by establishing the Kuwait Integrated Petrochemical Industries Company (KIPIC) in October 18, 2016; the first integrated downstream industry company that is wholly-owned by KPC, with a KD 1.8 billion capital. It was established with the goal of managing the largest oil complex in Kuwait which consists of Al-Zour Refinery, petrochemicals' complex, and Kuwait's first permanent imported LNG terminals, which were originally scheduled to be executed for Kuwait National Petroleum Company (KNPC). This project is considered the largest of its kind in the Middle East, and will help diversify sources of national income, meet the local energy requirements in Kuwait, and meet the increasing demand for low-sulfur fuel oil. In that regard, the board of directors was formed, and the executive management is currently being assembled.

- In partnership with associate companies, a team of staff with various specialties concerned with commercial, legal, financial, human resources, information technology and public services affairs was formed to set the basics and frameworks required to establish the company as a new legal entity that is ready from a management and financial standpoint. This will help facilitate the process of transferring the contracts of the Al-Zour Refinery, permanent imported LNG terminals and petrochemicals' complex to the new entity.
- An international consultancy firm (Strategy&) was sought to help prepare the suitable organizational structure, taking into account international standards, to meet the requirements of the current stage while being flexible and scalable to meet the company's future growth and expansions. Meanwhile, a consultancy contract was signed with a financial advisor (Sumitomo Mitsui Banking Corporation) at the end of October 2016 to prepare the financing of establishing the permanent imported LNG terminals.
- A study to find the best suitable alternative to supply Al-Zour Refinery with feedstock (oil and gas) was finished, resulting in rehabilitating current pipelines to avoid delay in operating the refinery until the project to build the pipelines that feed the refinery is finished.
- A study was conducted to expand the refinement capacity of local refineries in integration with petrochemicals, and that by refining 200,000 – 300,000 barrels of Kuwaiti oils a day.

Boosting Cooperation with Public & Private Sector Institutions

- Increasing cooperation and coordination with the State Audit Bureau in fields of mutual interest by exchanging visits and holding professional meetings, which shall yield positive results on the improvement of regulatory performance in the oil sector.
- Approval was obtained from the Supreme Petroleum Council to start executing the first phase of a project to run 43 gas stations operated by KNPC in partnership with the private sector, and that in cooperation with the Kuwait National Fund for Small and Medium Enterprise Development. As part of this partnership, entrepreneurs will jointly operate and develop KNPC gas stations.
- Offers of interest were received from local industrial firms for the opportunities that were displayed during the local content conference and exhibition. They are being evaluated for the private sector to participate in them, and to put together the necessary blueprint to implement the strategic plan.
- The strategic plans for the planning department were completed (to meet Kuwait's requirements of energy, health, safety, security and the environment, research and development, private sector partnership).
- Studies are currently in progress to assess whether Kuwait Oil Company (KOC) can be supplied with carbon dioxide in the enhanced oil recovery (EOR) project in partnership with the private sector, and that as part of the initiative to promote the private sector's involvement in the oil sector's activities and projects.

Sustainability

Preserving Natural Resources

Kuwait Petroleum Corporation realized the need to put together a social responsibility sustainability program, stemming from its role as a main driver of the Kuwaiti oil economy, and that in order to continue making profits and success in a competitive market, while at the same time respond to the environmental and social pressures for the benefit of the society, economy and the environment.

- Producing fuel for ships with features matching the latest environmental conditions and regulations, especially with regards to limiting hydrogen sulfide emissions to a maximum of 2,00 parts-per-million.

- In order to fulfill His Highness the Amir's wish to produce electricity using renewable energy, Kuwait Oil Company (KOC) launched the 'Sidra 500' solar power project at the Um Qudair field in the West Kuwait operations zone. It is the largest solar power project in Kuwait with a production capacity of 10 megawatts of electricity.

- Kuwait Gulf Oil Company (KGOC) selected a design for the new head office building that matches the highest environmental standards and international specifications.
The building, which is still under construction, will be the first environment-friendly building in Kuwait.

- The Petroleum Industries Company (PIC) conducted a study to take advantage of solar power, which resulted in saving more than 34% of electricity by installing solar panels on the roof of the head office building, and the project will be completed during the fiscal year 2017 - 2018.

- In order to increase awareness in the health, safety and the environment department, KOC organized a campaign for electronic waste, which shed light on the importance of electronic waste management and the best ways to implement it for the protection of the environment.

- The health, safety, security and environment team at KGOC launched the 'Juthoor' initiative in September 2016 under the patronage of the CEO and Deputy CEOs. It includes all employees and contracted staff at the company. The campaign is a group of principles to help protect people's lives, and can be used in our daily life activities to prevent risks and accidents.

- **PIC carried out several social initiatives, which are:**

1. Greening school gardens during a campaign titled "We Want it Green," and organizing an open day for students to spread awareness of healthy eating habits. PIC also organized a workshop entitled "social media's effect on decision making in Kuwait" at Kuwait University's College of Computer Sciences and Engineering.
2. A health awareness campaign about diabetes was held at Al-Kout Mall, where shoppers underwent medical tests including blood sugar and blood pressure tests, in addition to receiving medical advice.
3. A blood donations campaign was organized in cooperation with the Kuwait Blood Bank, which was highly successful among PIC employees who showed positive cooperation and high level of awareness regarding the importance of donating blood.
4. An awareness campaign was launched in cooperation with Omniya Company about recycling to protect the environment from plastic waste. In addition, special bins were distributed around the company to collect empty water bottles for recycling.

- The Kuwait Aviation Fuelling Company (KAFCO) achieved 84% level of customer satisfaction during 2016 - 2017.

- Necessary approvals to launch the solar power project were obtained.

- KNPC finished comprehensive maintenance operations to a number of main units at Mina Al-Ahmadi Refinery, which are the crude distillation unit (CDU 50), the atmospheric residue desulphurization unit (ARD), hydrogen production unit, sulfur recovery unit, and the new diesel desulphurization unit. A total of 564 equipment underwent maintenance according to schedule without delay.

- The third phase (engineering studies for optimal choice) for the second project to reduce gas combustion at the Wafra joint venture is in progress, and has become 95% complete.

- A carbon capture and storage/greenhouse gasses emission reduction study contract was signed in January 2017. This study examines several methods to reduce greenhouse and hydrocarbon emissions, and then presents a strategy to implement the best technologies to reduce those emissions at KOC.

- Tendering a project to build and maintain solar panels at parking lots of the oil complex in cooperation with the Kuwait Institute for Scientific Research (KISR). This project is part of the state's strategy to save energy using renewable energy, as well as the oil sector's strategy to adopt the 'green buildings' concept. The first and second stages of the projects have been completed, while the third stage is in progress.

- A study was conducted to find out the complementarities between the Clean Fuel Project and promising petrochemical ventures in coordination with KNPC.

We Preserve our Resources

• Collecting a KD 9,550,648,205 debt from KOC related to injected gas.

• Collecting the remaining accumulated indebtedness of the American army's invoices for the fiscal year 20152016-, which reach $33.2 million.

• The first financial department forum took place on December 13, 2016.

• The external auditors qualifying system for KPC and its subsidiaries was adopted and circulated at KPC subsidiaries.

• The final mechanism for injected gas was completed in cooperation with all clients.

• The Kuwait Fourth Enterprise Risk Management Conference was held in March 2017.

• KD 568,899,510 was collected from Gulf Insurance Company; the share profit for the group health insurance policy for the year 20142015-, and that after the performance recovery related to insurance claims, and drop of loss rate to 87.3%.

• Updating the financial investment strategy.

• Completing a study on the civil liability insurance (Directions & Officers) for employees at KPC and its subsidiaries, and obtaining approval from KPC's board of directors.

• Completing a study about the top five business interruptions, with the best solutions to mitigate their effects. The study was presented to KPC's board of directors.

• Coordination was made with KPC department and subsidiaries to rationalize spending and maximize revenues. Several initiatives were made in that regard.

• Kuwait Foreign Petroleum Explorations Company achieved $50 million in tax savings, added to the $250 million saved last year.

• Meanwhile, savings in capital and operational expenditure at KUFPEC reached $122 million, while revenues increased by $12 million.

• Achieving high value financial savings due to auditor's participation in auditing joint operations at KUFPEC.

• The Petrochemical Industries Company successfully completed 36 Six Sigma projects, bringing the total number of these projects that were successfully completed in the past eight years to 620. Savings estimated at KD 5.5 million were also achieved, and therefore PIC was able to make accumulated savings estimated at KD66.6 million during the past eight years. Furthermore, a sustainability examination report for the completed Six Sigma project was conducted and revealed that 87% of the completed projects are still sustainable.

• Replacing the training certificate with a digital certificate that is e-mailed to the employee.

• The internal audit general department released 97 reports about operations of KPC and its subsidiaries, which contained 915 recommendations that led to:

• Enhancing the internal auditing department's efficiency and performance.

• Improving the procedures and systems followed at several departments in KPC and its subsidiaries.

• Making financial savings.

• Saving expenses by turning 'KPC News' and 'Th'habah' magazines from printed publications into digital magazines.

• Procedures started to conduct a detailed feasibility study for the petroleum industrial zone, which was allocated for KPC.

• Review of capital programs' classification.

Investing in Human Resources

Inspiring the Future Generation

The oil sector is proud of its ambitious young assets who it believes are the basis for improving its productivity and achieving the desired goals. Therefore, it exerts notable efforts in developing and training its human resources.

The strategic directions were updated to include new goals and ambitions that extend towards the year 2040, which proves the oil sector management's commitment to continue its leadership role and maintain its position as an influential power in the national and global economies.

- Approving the work plan for the HR Customer Service Survey.
- Approving the bonus and incentives' system currently adopted at Kuwait Petroleum Corporation (KPC) by the Supreme Petroleum Council.
- The quality control department received a certificate from the Management System Auditor/ Lead auditor Training Course Kuwait.
- Automation of the students' field training program, and registration through the Oracle system. The system is currently in the process of being completed.
- The petroleum training center achieved advanced results in quality evaluation of training programs, lecturers and participants by 95%, compared to 85% for the same period last year. (These rates represent the evaluation standards, which are training programs' topics, training methods for participants, training programs' dates, training programs' facilities, supervision)
- The two-year e-learning program was started for the oil sector's new recruits according to the competency system. The project started in May 2016 with participation of 950 employees, and is 83% complete for the period mentioned above.
- A human resources strategy initiative pertaining to organization and capability development was executed, as the following programs were commenced:
- The unified generic competencies (UGCF) program with participation of nearly 5,056 employees and 138.7% of training needs.
- The HR Sourcing and Capabilities program: 415 employees and 206.5% of training needs.
- An electronic system was set up

to follow up the procedures of oil sector scholarship students (study bill payment dates, school results, and graduation).

- 637 team leaders in the oil sector underwent electronic training through cooperation with Harvard Company.
- Specific projects for the Learning Management System (LMS) project were completed as follows:
- Employees' personal development plans (PDP) system was completed.
- The general framework for the unified generic competencies was completed.
- The unified generic competencies (UGCFs) training program was completed.
- The personal development plans and letters required in the second quarter as part of the unified generic competencies was completed for 677 KPC employees.
- The training and development council's list was completely upgraded according to the requirements of the 2030 strategy.
- Two specialized workshops were organized in internal communications and oil publications with Shell in the field of communications.
- An awareness campaign was launched on the best practices, human resources systems and electronic services.
- Graduation of 65 KNPC engineers from the Structured On-The-Job Training (SOJT) program. This distinguished program, which extends from one to three years, offers new engineers the opportunity to hone their skills and attain experience. It is a leading system in training engineers in the world.
- Developing and qualifying national cadres through the following:
- Participation as part of the auditing team with PMT/PMC to follow up the executing of mega projects such as Al-Zour Refinery, Clean Fuel Project, imported LNG terminals, and LNG Terminal (5), in addition to auditing external joint ventures.
- Organizing internal auditing workshops for exchange of knowledge, expertise and best practices.
- Implementing specialized training programs at the Petroleum Training Center to qualify auditors to obtain the certified internal auditor (CIA) certificate in order to increase the number of qualified employees with professional certificates.
- Increasing the participation of national cadres in auditing joint ventures, in implementation of KUFPEC's foreign advisors' replacement plan and staff takeover of all joint venture operations.
- The internal auditors' conference took place in Kuwait from November 30 to December 1, 2016. Oil companies in Gulf Cooperation Council countries were invited, in addition to local authorities and companies to exchange views regarding monitoring and internal auditing.
- Implementing the best practices resulting from visits to internal auditing departments of some global and GCC oil companies such as Shell, Abu Dhabi National Oil Company (ADNOC), Qatargas, Qatar Petroleum, and Saudi Aramco. The goal of these visits was to become acquainted with the best practices in internal auditing and comparing them with the professional mechanism followed in the central internal auditing agency, in order to improve the internal auditing units' performance.
- Participation in the Six Sigma project by presenting the internal auditing initiative to enhance the level of performance in applying the approved recommendations without delay.
- Implementing an integrated audit assignment by forming a joint team of auditors from KPC unit and information systems to look into the applications of the consolidated financial lists' system.
- Twelve employees graduated with the green belt and six others with the black belt in the Six Sigma methodology. Also, the 12th training course to train employees on the green belt in the Six Sigma methodology was held with participation of PIC employees and staff from other KPC subsidiaries.
- The Ahmad Al-Jaber Oil and Gas Exhibition opened in October 2016 to spread awareness of the oil culture. It is a modern urban monument that deals with everything related to oil and gas.
- In accordance with KPC's initiative to introduce the seven corporate values, KGOC launched the '7*7*7' initiative to spread awareness among employees about the importance of these values in creating a suitable working environment, enhancing performance and increasing productivity.
- Importing, installing, operating and maintenance of the smart car parking system at the oil complex. The concrete and insulation layer works have successfully been completed, while final concrete casting is set to be started soon.
- KPC's official website and intranet site underwent facelifts.

Our Social Responsibility

1. Completing the employment campaign of new university graduates with administrative specializations in KPC and its subsidiaries. This campaign resulted in hiring 322 candidates.

2. The total number of Kuwaiti candidates hired in the oil sector reached 1,199 by the end of the fiscal year 20162017-. Furthermore, around 390 candidates were also approved to be hired soon.

3. KGOC played a positive role in supporting several state departments and offering donations to meet the needs of the public and society, establishing the principles of social responsibility and stemming from its commitment to enhance the values of corporate citizenship and improving the level of interaction and communications with state departments.

International Accolades

Kuwait Oil Company (KOC)

KOC earned several awards, which are:

- A certificate of appreciation from the Occupational Safety and Health Administration (OSHA) for its successful campaign entitled 'Safety Stand-Down' to avoid falling during construction, thus saving the company direct and indirect costs of any potential accidents. The campaign took place in May 2016.

- Three awards in the Kuwait eContect Award, which took place under the patronage of His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah:

1. First project: First place in the 'e-Health' category (Automated System for the Monitoring of Safety in Drilling Operations).
2. Second project: Second place in the 'e-Science' category (Tracking Wells' Injection System).
3. Third project: Third place in the 'e-Government' category (Tenderer Evaluation Model).

- Awarded by Kuwait Blood Bank as the first place winner of the award given to the company with most blood donations in Kuwait for the third straight year.

Kuwait Oil Tanker Company (KOTC)

- Obtained the best company award in vessel management and operation from the International

Marine «Ship-Tech» Organization, considered one of the most important international platforms in evaluating the performance of companies working in maritime transport, oil and gas. The organization honored KOTC at its 7th conference in 2016 held in Dubai. The award went to KOTC in appreciation of its success in managing the operation of its fleet with great efficiency according to the highest standards of security and safety.

- Winning the award for best tankers operator in the maritime industry on the regional level, the Middle East and the Indian sub-continent, by World Maritime Standards Organization. KOTC chief executive Sheikh Talal Al-Khaled Al-Sabah received the award during a conference held in Dubai in October 25, 2016. KOTC was given the award in recognition of its success in running its fleet with high efficiency according to the highest safety and security standards, readiness to face the accelerating challenges in the global energy market, as well as providing carriers with the latest technical and operational techniques and equipment in addition to the provision of highly efficient and trained national staff to carry out the operations of the fleet around the world successfully.

- KOTC received an award for maritime contributions and effective role in molding and producing maritime industry leadership, during the Maritime Academic Conference and Expo (MARACAD 2016) held in Dubai, in recognition of its role in creating and producing maritime industry leadership on both regional and international levels.

- KOTC received the maritime training award for the Middle East and North Africa from Lloyd's List Global Awards.

- Liberty Manning Services Limited (LMSL), which is wholly-owned by KOTC, received two certificates; the first for manning according to DNV standards, and the second for hiring according to the Maritime Labor Convention (MLC 2006).

Kuwait Aviation Fuelling Company (KAFCO)

- KAFCO won the 2016 Gold Medal Award of the Royal Society for the Prevention of Accidents (ROSPA), which was received by a KAFCO representative during a ceremony held in the United Kingdom in September 2016. Meanwhile, a KAFCO official also won the Rospa Guardian Angel Award 2016.

The Kuwait Foreign Petroleum Exploration Company (KUFPEC)

- The Norwegian Ministry of Petroleum and Energy approved KUFPEC as a certified operator in the Norwegian Continental Shelf, to serve the company's strategic goal in playing the operator's role.

Kuwait Petroleum International (KPI)

- Arabian Business awarded KPI as the best oil company in 2016.
- KPIC won the '2016 Risk Management Program' award for the Middle East and North Africa.

Consolidaed Financial Statements

Independent Auditors Report

for fiscal year ending 31 march 2017

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

Audit Report on the Consolidated Financial Statements

We have audited the Consolidated Financial Statements of KPC (the Corporation) and its subsidiaries (collectively referred to as the Group) which include the consolidated statement of financial position as of 31st March 2017, consolidated statements of profit or loss, other comprehensive income, changes in property rights and cash flows for the year then ended, in addition to clarifications include the significant accounting policies and other explanatory information.

From our point of view, the attached consolidated financial statements express fairly, in all material aspects, the consolidated financial position of the Group as of 31st March 2017, its consolidated financial performance, and its consolidated cash flows for the year then ended in line with International Financial Reporting Standards and Decree-Law No. 6 of 1980.

The Opinion Basis

We conducted auditing according to the International Auditing Standards. Our responsibilities under these standards are explained in detail within the item (Auditor's Responsibility for Auditing Consolidated Financial Statements) of our report. We are independent of the Group according to the Professional Ethics Code of Professional Accountants of the International Board of the Professional Ethics Standards (the Treaty). Also, we have accomplished our other ethical responsibilities according to the requirements of the Treaty. We believe that the auditing evidence we obtained is sufficient and appropriate to provide a basis to give our opinion.

Attention

We draw attention to definition 35 about the consolidated financial statements, which shows that the Group stands accused in a case before an international court by a contractor requesting additional amounts related to the contract. The final result of the case can not be determined currently, and therefore no allocations have been made for any impacts that may arise on the Group regarding the consolidated financial statements.

Other information

Management is responsible for other information. The other information we got at the date of the auditor›s report is the Board of Directors' report contained in the Group's annual report, but it does not include the consolidated financial statements and the auditor›s report about it.

Our opinion about the consolidated financial statements does not include the other information, and does not provide any confirmations about the results in any way.

Regarding our auditing of the consolidated financial statements, our responsibility is to check the other information and determine whether it is fundamentally inconsistent with the consolidated financial statements or the information we got during the audit, or if there are material mistakes in this regard.

If we find, based on the works we conducted regarding the other information we got prior to this report's date, that there are material mistakes in this other information, then we must report them. We have nothing to refer to in our report in this regard.

The responsibilities of management and those responsible for governance about the consolidated financial statements:

Management is responsible for preparing and fair presentation of these consolidated financial statements according Management is responsible for preparing and fair presentation of these consolidated financial statements according to the International Financial Reporting Standards and Decree-Law No. 6 of 1980. Also, it is responsible for the internal control system which management considers necessary to prepare consolidated financial statements free from material mistakes, whether because of cheat or error.

At preparing the consolidated financial statements, management is responsible for evaluating the Group›s ability to continue its business on continuity basis, and disclosing, if possible, matters relating to continuity, as well as using the accounting continuity principle, unless the management intends to liquidate the Group or stop its operations, or does not have another realistic alternative except to do so.
Those responsible for governance are responsible for supervising the Group›s financial reporting process.

Auditor's responsibilities for the Consolidated Financial Statements Auditing

Our goal is to get reasonable assurance if the consolidated financial statements, as a whole, are free of material mistakes, whether due to cheat or error, and issuance of the auditor›s report which includes our opinion. Reaching a reasonable level of assurance represents a high degree of assurance, but it does not guarantee that the auditing process which is implemented according to the international auditing standards will always reveal the material mistakes, if any. Material mistakes may arise from cheat or error and are considered essential if they are reasonably expected to affect, individually or collectively, the users' economic decisions that are made based on these consolidated financial statements.
As part of our audit according to the International Auditing Standards, we took professional provisions and maintained the professional doubt method during the auditing processes. We also conducted the following:

- Identifying and evaluation of the material mistakes' risks in the consolidated financial statements, whether due to cheat or error, developing and implementing audit procedures that deals with those risks. In addition, obtaining sufficient and appropriate audit evidence to provide a basis to give our opinion. The risks of not discovering the material mistakes resulting from cheat increase those resulting from error, as cheat may involve collusion, fraud, deliberate negligence, dishonesty, or overriding internal control.
- Understanding the internal controls tools related to audit to establish audit procedures fit the circumstances, but not for expressing an opinion about the effectiveness degree of the Group›s internal controls.
- Evaluation of the appropriateness of accounting policies used, the reasonableness of accounting estimates, and related disclosures provided by the management.
- Determining the appropriateness of using the tool for the accounting continuity principle basis and, based on our auditing evidence we got, determining if there is material uncertainty relating to events or circumstances that may raise essential doubts about the Group›s ability to continue in its business based on continuity principle. If we find material uncertainty, we must mention this in the auditor's report about the relevant disclosures in the consolidated financial statements, or we must amend our opinion in case of inadequacy of disclosures. Our outcomes are based on the auditing evidence we got as of the date of the auditor's report. However, future events or circumstances may cause the Group to discontinue its business based on continuity principle.
- Evaluation of the comprehensive presentation of the consolidated financial statements, structure and data contained therein, including disclosures, and evaluating whether the consolidated financial statements express the basic transactions and related events in a manner achieves fair presentation.
- Obtaining sufficient and appropriate audit evidence about the companies' financial or businesses activities within the Group to give an opinion about the consolidated financial statements. Our responsibility is to provide directions and supervision on the audit process, and implement it for the Group and we are fully responsible for the audit opinion.

We communicate with those responsible for governance about many issues, such as the scope and timing of auditing, and the essential audit outcomes, including any essential deficiencies in the internal control tools identified during the auditing.

Report on the other systematic and legal requirements

Also, we got the information and explanations that we considered necessary for auditing purposes, and that the consolidated financial statements include the information stipulated by Decree-Law No. 6 of 1980. In our opinion, KPC has regular accounting records, as the accounting information contained in the Board of Directors' report is in accordance with KPC's accounting books. We have not received any violations during the year ended 31st March 2017 of Decree Law No. 6 of 1980 in a manner that materially affects the Group›s activity or its consolidated financial position.

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

Kuwait 11 June 2017

Consolidated statement of financial position

as at 31 March 2017

	Note	2017 KD'000	2016 KD'000
Assets			
Property, plant and equipment	5	20,479,678	16,630,397
Goodwill	6	108,194	112,269
Intangible assets	7	591,985	604,656
Deferred tax assets	14	451,778	349,391
Other non-current assets	8	213,080	132,173
Available-for-sale investments	9	6,974,952	6,880,608
Investments in equity accounted investees	10	705,440	663,477
Non-current assets		29,525,107	25,372,971
Inventories	11	1,214,351	972,169
Trade receivables	12	3,261,330	2,228,091
Other receivables and prepayments	13	1,572,222	1,765,410
Taxes receivable	14	16,970	19,199
Bank balances and cash	15	2,687,031	4,429,559
Assets held for sale	16	40,731	-
Current assets		8,792,635	9,414,428
Total assets		38,317,742	34,787,399
Equity			
Authorised and paid-up share capital		2,500,000	2,500,000
Statutory reserve	17	1,250,000	1,250,000
Capital reserve	18	232,945	232,945
General reserve	19	17,261,726	15,820,782
Reserve for replacement and renewal of property, plant and equipment	20	3,436,691	3,336,691
Remeasurement of defined benefit obligation reserve		(147,649)	(134,076)
Cumulative changes in fair values		1,124,380	840,791
Foreign currency translation reserve		(249,764)	(223,994)
Equity attributable to equity holder of the Corporation		25,408,329	23,623,139
Non-controlling interest		75,045	64,392
Total equity		25,483,374	23,687,531
Non-current liabilities	21	3,468,953	2,656,758
Trade payables		1,168,884	981,201
Other payables and accruals	22	2,052,221	1,731,652
Taxes payable	14	177,526	209,243
Amounts due to Ministry of Oil	23	1,990,838	1,545,068
Profit available for distribution	24	3,975,946	3,975,946
Current liabilities		9,365,415	8,443,110
Total liabilities		12,834,368	11,099,868
Total equity and liabilities		38,317,742	34,787,399

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

Nizar M. Al Adsani
Deputy Chairman & CEO

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

Consolidated statement of profit or loss and other comprehensive income - as at 31 March 2017

	Note	2017 KD'000	2016 KD'000
Revenues			
Sales of crude oil, gas, refined products and petrochemicals		19,678,222	19,009,763
Revenues from consultancy and other operations	25	63,268	92,382
		19,741,490	19,102,145
Cost of revenues			
Cost of sales of crude oil, gas, refined products and petrochemicals		(18,186,867)	(17,710,504)
Cost of consultancy and other operations		(51,311)	(71,687)
		(18,238,178)	(17,782,191)
Gross profit		1,503,312	1,319,954
Depreciation and amortisation		(291,915)	(293,388)
General and administrative expenses		(367,835)	(372,336)
Provision for impairment loss on property, plant and equipment and goodwill and others		(49,912)	(208,479)
Operating profit		793,650	445,751
Interest income		51,237	42,942
Interest expense		(24,524)	(25,186)
Net interest income		26,713	17,756
Investment income	26	274,470	231,767
Gain on sale of subsidiaries and joint venture	38	-	381,614
Share of results of equity accounted investees	10	118,671	167,254
Other income (net)	27	332,665	308,254
Directors' remuneration	28	(58)	(79)
Profit before provision for income tax		1,546,111	1,552,317
Income tax benefit	14	5,970	94,126
		1,552,081	1,646,443
Provision for replacement and renewal of property, plant and equipment	20	(100,000)	(314,000)
Profit for the year		1,452,081	1,332,443
Other comprehensive income / (loss)			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit obligations		(13,573)	693
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations		(25,770)	(123,367)
Net change in fair value of available-for-sale investments		283,589	(181,263)
Other comprehensive income / (loss) for the year		244,246	(303,937)
Total comprehensive income for the year		1,696,327	1,028,506
Profit attributable to:			
Equity holder of the Corporation		1,440,944	1,325,528
Non-controlling interest		11,137	6,915
Profit for the year		1,452,081	1,332,443
Total comprehensive income attributable to:			
Equity holder of the Corporation		1,685,190	1,021,591
Non-controlling interest		11,137	6,915
Total comprehensive income for the year		1,696,327	1,028,506

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

Attributable to equity holder of the Corporation

	Authorised and paid-up share capital	Statutory reserve	Capital reserve	General reserve	Reserve for Replacement and renewal of property, plant and equipment	Remeasurement of defined benefit obligation reserve	Cumulative changes in fair values	Foreign currency translation reserve	Total	Non-controlling interest	Total equity
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 31 March 2015	2,500,000	1,250,000	232,945	14,497,839	3,022,691	(137,354)	1,022,054	(100,627)	22,287,548	49,282	22,336,830
Total comprehensive income											
Profit for the year	-	-	-	1,325,528	-	-	-	-	1,325,528	6,915	1,332,443
Other comprehensive income / (loss)	-	-	-	-	-	693	(181,263)	(123,367)	(303,937)	-	(303,937)
Total comprehensive income / (loss)	-	-	-	1,325,528	-	693	(181,263)	(123,367)	1,021,591	6,915	1,028,506
Reserve for replacement and renewal of property, plant and equipment	-	-	-	-	314,000	-	-	-	314,000	-	314,000
Net movement in non-	-	-	-	-	-	-	-	-	-	8,195	8,195
controlling interest	-	-	-	(2,585)	-	2,585	-	-	-	-	-
Re-measurement of defined benefits obligation reserve transferred to general reserve on sale of joint venture	2,500,000	1,250,000	232,945	15,820,782	3,336,691	(134,076)	840,791	(223,994)	23,623,139	64,392	23,687,531
Balance at 31 March 2016											

Attributable to equity holder of the Corporation

	Authorised and paid-up share capital	Statutory reserve	Capital reserve	General reserve	Reserve for Replacement and renewal of property, plant and equipment	Remeasurement of defined benefit obligation reserve	Cumulative changes in fair values	Foreign currency translation reserve	Total	Non-controlling interest	Total equity
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 31 March 2016	2,500,000	1,250,000	232,945	15,820,782	3,336,691	(134,076)	840,791	(223,994)	23,623,139	64,392	23,687,531
Total comprehensive income											
Profit for the year	-	-	-	1,440,944	-	-	-	-	1,440,944	11,137	1,452,081
Other comprehensive income / (loss)	-	-	-	-	-	(13,573)	283,589	(25,770)	244,246	-	244,246
Total comprehensive income / (loss)	-	-	-	1,440,944	-	(13,573)	283,589	(25,770)	1,685,190	11,137	1,696,327
Reserve for replacement and renewal of property, plant and equipment	-	-	-	-	100,000	-	-	-	100,000	-	100,000
Net movement in non-	-	-	-	-	-	-	-	-	-	(484)	(484)
controlling interest	2,500,000	1,250,000	232,945	17,261,726	3,436,691	(147,649)	1,124,380	(249,764)	25,408,329	75,045	25,483,374
Balance at 31 March 2017											

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

	Notes	2017 KD'000	2016 KD'000
Cash flows from operating activities			
Profit for the year		1,452,081	1,332,443
Adjustments for:			
Depreciation and amortisation		291,915	293,388
Provision for replacement and renewal of property, plant and equipment	20	100,000	314,000
Provision for impairment loss on property, plant and equipment and goodwill and others		49,912	208,479
Write off of unsuccessful exploration	7	24,084	81,531
Provision for employees' terminal benefits and pensions		101,662	142,777
Loss on disposal of property, plant and equipment		209	1,638
Share of results of equity accounted investees	10	(118,671)	(167,254)
Gain on sale of subsidiaries and joint venture		-	(381,614)
Interest income		(51,237)	(42,941)
Provisions- net		25,714	-
Interest expense		24,524	25,186
Income tax benefits	14	(5,970)	(94,126)
Investment income		(274,470)	(231,767)
		1,619,753	1,481,740
Changes in:			
- inventories		(258,319)	330,297
- trade receivables		(1,041,028)	652,633
- other receivables and prepayments		198,998	(263,132)
- non-current liabilities		(352,709)	(240,010)
- trade payables		187,683	(259,858)
- other payables, accruals and other credit balances		318,961	617,445
- change in amounts due to Ministry of Oil		815,930	(600,570)

Cash generated from operations		1,489,269	1,718,545
Interest paid		(24,524)	(25,186)
Taxes paid (net)		(45,054)	(34,955)
Net cash from operating activities		1,419,691	1,658,404
Cash flows from investing activities			
Change in deposits maturing after three months		258,989	637,048
Acquisition of assets	37	(4,424)	-
Change in available-for-sale investments		462,062	(15,974)
Net movement in equity accounted investees		78,076	61,336
Additions to intangible assets	7	(18,608)	(61,765)
Proceeds on sale of subsidiaries and joint venture		-	470,881
Change in other non-current assets		(80,907)	616
Purchase of property, plant and equipment	5	(4,567,939)	(3,434,054)
Proceeds from disposal of property, plant and equipment		5,223	3,939
Interest received		51,237	42,941
Net cash used in investing activities		(3,816,291)	(2,295,032)
Cash flows from financing activities			
Increase in term loans and borrowings, net		933,633	343,520
Change in non-controlling interest		(484)	8,195
Net cash from financing activities		933,149	351,715
Net effect of foreign currency translation adjustments		(20,088)	(106,693)
Net decrease in cash and cash equivalents		(1,483,539)	(391,606)
Cash and cash equivalents at beginning of the year		4,007,635	4,399,241
Cash and cash equivalents at end of the year	15	2,524,096	4,007,635
Short-term deposits maturing after three months from the date of placement	15	162,935	421,924
Bank balances and cash at end of the year	15	2,687,031	4,429,559

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

1. Corporate information

The Kuwait Petroleum Corporation ("the Corporation" or "the Parent") is wholly-owned by the Government of the State of Kuwait. The Corporation was established by Law Decree No. 6 of 1980 which came into effect on 27 January 1980. The principal activities of the Corporation and its subsidiaries (together referred to as "the Group") include exploration, drilling, production, storage, refining, processing, transportation, distribution and marketing of crude oil, natural gas, chemical, petrochemical and associated products. The marketing of crude oil and petroleum products produced by subsidiaries in the State of Kuwait is undertaken by the Corporation. The entire Group's other activities, including the marketing of crude oil and petroleum products produced by subsidiaries outside the State of Kuwait are carried out through its subsidiaries, associates and joint ventures/ operations. The principal subsidiaries, associates and joint ventures/ operations are set out in Note 42. The Group operates principally in the Middle East, Far East, Western Europe, U.S.A, Canada and the Australia.

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

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

The consolidated financial statements of the Group for the year ended 31 March 2017 were authorised for issue in accordance with a resolution of the directors on 11 June 2017. These consolidated financial statements are subject to change upon approval of the Supreme Council for Petroleum.

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention, modified for the measurement at fair value of available-for-sale investments and derivative financial instruments.

c) Functional and presentation currency

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

d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires

management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

e) Changes in accounting policies

The Group has adopted the following revised and newly issued IFRSs effective for annual periods beginning on or after 1 April 2016:

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Annual Improvements 2012-2014 Cycle

IAS 19 Employee Benefits- The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. This amendment did not have any impact on consolidated the financial statements of the Group.

IFRS 7 Financial Instruments: Disclosures Servicing contracts- The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of income and other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to statement of income.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of income and other comprehensive income. These amendments do not have any impact on the consolidated financial statements of the Group.

3. Significant accounting policies

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

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and its principal subsidiaries. Details of the principal consolidated subsidiaries are included in Note 42.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

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

Intra-group balances and transactions, including intra-group profits and unrealised profits and losses are eliminated on consolidation.
The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

Accounting periods of subsidiaries

The Corporation's financial year was from 1 April 2016 to 31 March 2017. The financial year of the Corporation's significant subsidiaries is the same as that of the Corporation with the exception of Kuwait Foreign Petroleum Exploration Company K.S.C., Kuwait Gulf Oil Company K.S.C. (Closed), KPC Energy Ventures, Inc. and Kuwait Aromatics Company K.S.C.C., whose financial years were from 1 January 2016 to 31 December 2016. Where such subsidiaries do not prepare financial statements up to the same date as that of the Group, adjustments are made for the effects of any significant events or transactions which have occurred in the months following the year end of these subsidiaries.

b) Property, plant and equipment

i. Oil and gas properties

Exploratory wells

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

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

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

Development Wells

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

Oil and gas properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

ii. Other property, plant and equipment

Other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated 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.

Subsequent costs

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

Gain or loss on disposal

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

iii. Other assets under construction

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

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

iv. Depreciation

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

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

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

Asset category	Depreciation	
	2016 - 2017	**2015- 2016**
	Years	Years
Oil and gas		
Oil and gas properties	Unit of production	Unit of production
Plant and machinery	25 – 20	25 – 20
Tankage, pipelines and jetties	25 – 20	25 – 20
Wells and surveys	20 – 10	20 – 10
Service plant and drilling equipment	5 – 4	5 – 4
Vessels	35 – 30	35 – 30
Other property and equipment		
Land, buildings and roads	25	25
Furniture, tools and computers	10 – 5	10 – 5
Vehicles, ships and marine craft	13 – 5	13 – 5

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

c) **Goodwill**

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

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

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

d) Intangible assets

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

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

Pre-license costs

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

License and property acquisition costs

Exploration license and leasehold property acquisition costs are capitalised within intangible assets and are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine, that the discovery is econon1ically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing.

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

Exploration and evaluation costs

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

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

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

Gain or loss on disposal

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

Amortisation

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

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

	Years
***License cost**	3 - 30
Application software	5
Reservation right fees	25
Seismic survey and others	More than 10

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

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

e) Available-for-sale investments

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognized in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to the consolidated statement of profit or loss.

Impairment

For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income) is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of income. Any increase in fair value after impairment is recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Subsequent increase in fair value of a debt instrument which is objectively related to an event occurring after the impairment loss was recognised, is credited to the consolidated statement of profit or loss and other comprehensive income.

f) Investments in equity accounted investees

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

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

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

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

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.
The profit or loss reflects the share of the results of operations of the associate or joint venture. Where there has been a change recognised in other comprehensive income of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

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

and then recognises the loss in the statement of profit or loss.

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

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

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

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

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

g) Interests in joint operations

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

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

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

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

h) Inventories

i) Crude oil and petroleum products

Crude oil inventory is valued at the lower of weighted average cost and net realisable value at the year end. The cost of crude oil to the Corporation is determined by the Government of Kuwait in

accordance with the Decree issued on 17 January 1981. The formula for establishing the cost of crude oil has been revised in accordance with a resolution by the Supreme Council for Petroleum effective 1 July 1997.

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

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

ii) Other

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

i) Trade receivables

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

j) Deferred expenses

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

k) Cash and cash equivalents

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

l) Recognition and de-recognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognised either when the Group has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset. A financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

m) Impairment

Impairment of non-financial assets

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets i.e. CGU. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

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.

Impairment of financial assets other than available for sale investments

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

• default or delinquency by a debtor;
• restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
• indications that a debtor or issuer will enter bankruptcy;
• adverse changes in the payment status of borrowers or issuers;
• the disappearance of an active market for a security; or
• observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the consolidated statement of profit or loss and other comprehensive income and reflected in an allowance account. When the Group considers that there are no realistic

prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

n) Trade payables

Trade payables are stated at their amortised cost.

o) Bank borrowings

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

p) **Borrowing** costs

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

All other borrowing costs are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they are incurred. Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the ‹›probable economic benefits» test and also are rarely debt funded. Any related borrowing costs are therefore generally recognised in profit or loss in the period they are incurred.

q) Foreign currency translation

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.
The Group’s investments in foreign subsidiaries, associates and joint ventures are translated into Kuwaiti Dinars at the year end rates of exchange and the results of the subsidiaries, associated companies and joint ventures are translated into Kuwaiti Dinars at the average rates of exchange

for the year. Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income. When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

r) Fair values of financial instruments

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

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

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

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

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

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

s) Trade and settlement date accounting

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

t) Taxes on income

Income tax expense represents the sum of tax currently payable and deferred tax relating to individual subsidiaries and their local tax jurisdictions. The tax currently payable is based on taxable profit for the year, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be

recovered or settled. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint venture, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

u) Derivatives

The Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties whose value changes in response to movements in a reference price, rate, index or similar variable that requires a minimal initial net investment relative to other types of contracts, and that is settled at a future date. Derivative financial instruments include forwards, futures, swaps and options.

Derivatives are stated at fair value. The fair value of a derivative is the amount for which an asset could be exchanged, or a liability settled between knowledge and willing parties in arm's leght transaction. Derivatives with positive market values (unrealised gains) are included in other receivables and derivatives with negative market values (unrealised losses) are included in other payables in the consolidated statement of financial position. The resultant gains and losses from derivatives held for trading purpose are included in the consolidated statement profit or loss and other comprehensive income.

The Group also enters into sales and purchase contracts as part of its international operations. Where these contracts qualify as a derivative or include an embedded derivative as defined by IAS 39, they are stated at fair value. Fair value is assessed by applying prevailing market prices directly to the contract or embedded derivative, where possible, or by identifying separate financial instruments which have the same terms and are readily traded in the relevant markets.

v) Provisions

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

w) Offsetting

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

x) Revenue recognition

Sales are recognised on the date legal title passes to the customer in accordance with the contract of sale. Other operating revenues are recognised as work is performed or over the terms of the related contracts.

Revenues from the production of oil, in which the Group has an interest with other producers, is recognised based on the Group's working interest and the terms of the relevant production sharing contracts. Under adjusting revenue method, the excess of product sold during the period over the participant's ownership share of production from the property is recognised by the overlifting party a liability (deferred revenue) and not as a revenue.

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

The Group operates some customer loyalty programmes accounted for in accordance with the IFRIC 13. In particular, part of the consideration received from the sales transactions is allocated to award credits granted, on the basis of their fair value, and recorded in the consolidated statement of financial position "Other liabilities"; such liability is released to the profit and loss account (as a revenue) in the year when award credits are redeemed by customers or rights are cancelled

Interest is recognised on the accrual basis.

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

y) Leases

Rentals paid under operating leases are expensed on a straight-line basis over the lease term, irrespective of the terms of payment.

z) Provision for employees' indemnity

Defined benefit and contribution scheme – Parent and local subsidiaries

Provision is made for employees' indemnity in accordance with the Kuwait Labour Law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the amount payable to employees as a result of involuntary termination of employment at the reporting date.

Pensions and other social benefits for Kuwaiti employees are covered by The Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme, is charged to 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.
Defined benefit scheme – Foreign subsidiaries

The Group's subsidiaries in the UK, Sweden, Belgium, Germany and Italy (see "Termination allowances" below) provide defined pension schemes for their employees. The funds are valued every period by professionally qualified independent actuaries. The obligations and costs of pension benefits are determined using the projected Unit Credit Method. When the calculation results in a potential asset

for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

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

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

Defined contribution schemes

In addition to the defined schemes described above, the Group's affiliates in the UK, Belgium and Netherlands sponsor defined contribution plans for employees based on local practices and regulations. The Group's contributions relating to defined contribution schemes are charged to profit or loss in the year to which they relate.

Termination allowances

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

aa) Emissions' rights

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

bb) Assets held for sale

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

cc) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective at 31 March 2017, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's financial results. The Group plans to adopt these pronouncements when they become effective.

IFRIC 22 Foreign Currency Transactions and Advance Consideration, issued in December 2016, addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 22.

IFRS 2 Share-based Payment was amended in June 2016 by the Classification and Measurement of Share-based Payment Transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; a modification to the terms and conditions of share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 2.

IAS 7 Statement of Cash Flows was amended in January 2016 by the Disclosure Initiative. The amendments require entities to provide a reconciliation of financing cash flows in the statement of cash flows to the opening and closing balances of liabilities arising from financing activities (except for equity balances) in the statement of financial position. The amendments are effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 7.

IFRS 16 Leases, issued in January 2016, replaces the existing lease accounting guidance in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRS 9 Financial instruments, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers, issued in May 2014, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

4. Significant accounting judgement and estimates

Critical judgements in applying the Group's accounting policies

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

Recognition of provisions

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

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

Further details of amounts for which either provision or disclosure was deemed to be required are given in Notes 21 and 35 respectively.

Impairment of available-for-sale investments

The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Classification of securities

Management decides on acquisition of securities whether they should be classified as investments carried at **fair** value through profit or loss or available-for-sale.

The management classifies its securities as carried at fair value through profit or loss if they are acquired primarily for the purpose of short term profit making and the fair value of those securities can be reliably determined.

Classification of securities at fair value through profit or loss depends on how management monitors the performance of these securities when they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified at fair value through profit or loss. Other securities are classified as available-for-sale.

Joint arrangements

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

Key sources of estimation uncertainty

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

Valuation of unquoted equity securities

Valuation of unquoted equity securities is normally based on one of the following:

- recent market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Measurement of provisions

Having concluded that a provision is required for a potential exposure (see above), the amount to be recognised shall be the best estimate of the expenditure required to settle the present obligation at the reporting date, taking into consideration any relevant risks and uncertainties and the time value of money. This requires management to make its best estimates of the likely future outflows, the expected timing of such outflows and the discount rate to be applied to such outflows, taking into account the risks specific to the particular exposure. Further details of the nature of provisions

recorded by the Group are provided in Note 21. The majority of these exposures are expected to be settled over a relatively limited number of years which limits the uncertainty in respect of the time value of money.

Reserve and resource estimates

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

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

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

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

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

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

Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established.
Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in consolidated statement of income in the period when the new information becomes available

Units of production depreciation of oil and gas properties

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

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

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

Impairment of oil and gas properties

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

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

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

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

present value. These calculations require the use of estimates and the input factors most sensitive to change.

Remeasurement gains and losses

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

Recovery of deferred tax assets

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

Decommissioning costs

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

5. Property, plant and equipment

	Oil and gas						Other property and equipment				
	Oil and gas properties	Plant and machinery	Tankage, pipelines and jetties	Wells and surveys	Service plant and drilling equipment	Vessels	Land, buildings and roads	Furniture, tools and equipment	Vehicles, ships and marine craft	Assets under construction	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 April 2016, net of accumulated depreciation	1,843,102	3,010,434	1,373,686	1,920,482	6,362	490,914	689,322	18,096	65,577	7,212,422	16,630,397
Additions	397,238	9,428	264	78	-	-	6,315	647	643	4,153,326	4,567,939
Disposals	-	(1,197)	(6)	-	-	(2,920)	69	(722)	-	(4,955)	(9,731)
Change in estimate	30,357	-	-	-	-	-	-	-	-	-	30,357
Transfers	-	333,362	104,613	589,094	27,604	9,005	292,257	9,616	12,467	(1,384,023)	(6,005)
Foreign currency translation adjustment	9,677	(10,095)	(1,474)	3,471	2	-	(8,504)	105	(69)	1,063	(5,824)
Depreciation for the year	(123,248)	(190,181)	(84,093)	(152,997)	(7,863)	(24,459)	(49,824)	(6,843)	(6,944)	-	(646,452)
Assets classified as held for sale (Note 16)	-	(27,811)	(7,935)	-	-	-	(1,257)	-	-	-	(37,003)
Impairment loss	(32,851)	-	-	-	-	(11,149)	-	-	-	-	(44,000)
At 31 March 2017	2,124,275	3,123,940	1,385,055	2,360,128	26,105	461,391	928,378	20,899	71,674	9,977,833	20,479,678
Property, plant and equipment											
At cost	3,757,711	7,015,416	2,912,851	4,649,710	66,887	806,668	1,530,863	109,305	147,727	9,977,833	30,974,971
Accumulated depreciation and impairment losses	(1,633,436)	(3,891,476)	(1,527,796)	(2,289,582)	(40,782)	(345,277)	(602,485)	(88,406)	(76,053)	-	(10,495,293)
Net carrying amount at 31 March 2017	2,124,275	3,123,940	1,385,055	2,360,128	26,105	461,391	928,378	20,899	71,674	9,977,833	20,479,678

The depreciation charged to profit or loss is reduced by KD 361 million (2016: KD 307 million) being the amount charged to the Ministry of Oil in respect of the operations of local wholly owned subsidiaries. Included in assets under construction are amounts of KD 1,264,887 thousand and KD 2,751,228 thousand (2016: KD 523,860 thousand and KD 1,666,842 thousand) relating to the Group's new refinery i.e. Al-Zour Refinery Project, and the Clean Fuels Project ("CFP") respectively. Oil and gas includes additions of KD 117,267 thousand acquired through asset acquisition by KUFPEC in December 2016 (Note 37).

"Land, buildings and roads" and "Plant and machinery" includes certain building, plant and machinery constructed on land leased from the Government of Kuwait for a renewable period of twenty five years maturing on 25 June 2023 and 2031. During the year, borrowing costs of KD 36 million (2016: KD 7 million) were capitalised in oil and gas properties and assets under construction. Land, buildings and roads includes land amounted to KD 61 million (2016: KD 63 million). Certain "Property, plant and equipment" are secured against borrowing facilities (Note 21).

5. Property, plant and equipment (continued)

	Oil and gas						Other property and equipment				
	Oil and gas properties	Plant and machinery	Tankage, pipelines and jetties	Wells and surveys	Service plant and drilling equipment	Vessels	Land, buildings and roads	Furniture, tools and equipment	Vehicles, ships and marine craft	Assets under construction	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 April 2015, net of accumulated depreciation	1,743,147	2,458,443	1,337,863	1,722,859	8,893	551,492	625,931	19,085	7,119	5,478,349	13,953,181
Additions	424,317	10,671	-	149	14	-	5,970	685	439	2,991,809	3,434,054
Disposals	(769)	(1,805)	(18,418)	624	(15)	-	(2,962)	(906)	(200)	-	(24,451)
Disposal of subsidiaries	-	7,016	1,360	-	-	-	-	-	-	(8,376)	-
Change in estimate	22,093	-	-	-	-	-	-	-	-	-	22,093
Transfers	-	655,075	122,638	321,362	1,138	4,839	102,083	5,515	62,650	(1,270,532)	4,768
Foreign currency translation adjustment	(55,913)	8,106	12,890	8,836	-	-	23,552	800	127	41,700	40,098
Depreciation for the year	(131,503)	(174,893)	(74,534)	(133,348)	(3,668)	(23,239)	(39,853)	(7,083)	(4,248)	-	(592,369)
Reclassification of assets	-	52,081	(6,080)	-	-	-	(25,399)	-	(74)	(20,528)	-
Impairment loss	(158,270)	(4,260)	(2,033)	-	-	(42,178)	-	-	(236)	-	(206,977)
At 31 March 2016	1,843,102	3,010,434	1,373,686	1,920,482	6,362	490,914	689,322	18,096	65,577	7,212,422	16,630,397
Property, plant and equipment											
At cost	3,301,467	6,884,254	2,884,726	4,054,840	39,905	815,468	1,268,560	100,984	135,617	7,212,422	26,698,243
Accumulated depreciation and impairment losses	(1,458,365)	(3,873,820)	(1,511,040)	(2,134,358)	(33,543)	(324,554)	(579,238)	(82,888)	(70,040)	-	(10,067,846)
Net carrying amount at 31 March 2016	1,843,102	3,010,434	1,373,686	1,920,482	6,362	490,914	689,322	18,096	65,577	7,212,422	16,630,397

6. Goodwill

	2017 KD'000	2016 KD'000
Balance at beginning of the year	112,269	103,853
Acquisitions	1,786	1,738
Impairment	-	(1)
Currency translation effects	(5,861)	6,679
Balance at end of the year	108,194	112,269

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of recoverable amount of the CGU to which goodwill is allocated. The recoverable amount is determined based on the higher of fair value less costs to sell and value in use. The key assumptions used in calculating value in use includes growth rate either nil or below zero after first five years in pre-tax cash flow projections and pre-tax discount rate ranges from 7.5% to 10% per annum. The value in use of the cash-generating units to which goodwill has been allocated, as estimated by management indicates that there has been no impairment during the year ended 31 March 2017. 7.

7. Intangible assets

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

	2017 KD'000	2016 KD'000
Balance at beginning of the year	604,656	623,905
Additions during the year	18,608	61,765
Transfer from assets under construction	5,984	1,061
Amortisation	(15,623)	(15,719)
Write-off of unsuccessful exploration cost	(24,084)	(81,531)
Disposals	(110)	-
Impairment loss	(1,939)	-
Currency translation effects	4,493	15,175
Balance at end of the year	591,985	604,656

The above primarily consists of licenses in respect of the Group's retail network together with capitalised software development costs and exploration and evaluation assets. At the reporting date, the carrying amount of intangible assets includes KD 473 million (2016: KD 479 million) of exploration and evaluation assets.

8. Other non-current assets

	2017 KD'000	2016 KD'000
Loans to joint ventures	127,435	63,547
Long term portion of trade receivables	47,908	30,387
Deferred expenses	16,861	17,912
Others	20,876	20,327
	213,080	132,173

In prior years, the Group advanced long term loans ("Loans") denominated in US$ and Swedish Krona to NSRP and OKQ8, associates, which carries 1 month US$ Libor rate plus 6% per annum and 6 month Stibor rate plus 0.5% per annum. At the reporting date, the outstanding loans balance receivable from NSRP and OKQ8 amounts to US$ 381 million (2016: US$ 169 million) and US$ 31 million (2016: US Dollars 36.4 million) and is fully repayable on 27 May 2029 and 1 January 2019 respectively.

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

9. Available-for-sale investments

	2017 KD'000	2016 KD'000
Managed portfolios and funds	6,926,647	6,848,286
Others	48,305	32,322
	6,974,952	6,880,608

Available-for-sale investments are denominated predominantly in US$ and Euros and represent investments in high credit quality bonds and equities quoted on international stock markets.

10. Investment in equity accounted investees

	2017 KD'000	2016 KD'000
Significant equity accounted investees	644,814	631,947
In-significant equity accounted investees	60,626	31,530
	705,440	663,477
Share of profit of equity accounted investees		
Share of profit of significant equity accounted investees	117,311	115,252
Share of profit of in-significant equity accounted investees	1,360	2,284
Share of profit from joint ventures disposed off in 2015	-	49,718
	118,671	167,254

10. Investments in equity accounted investees (continued)

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

31 March 2017	Ownership	Total assets	Total liabilities	Net assets	Group's share of net assets/ carrying value of investments	Revenues	Expenses	Profit/ (loss)	Share of profit
		KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Associates									
KDC	49%	**346,088**	**251,064**	**95,024**	**46,562**	**77,053**	**72,855**	**4,198**	2,057
EQUATE	42.5%	**2,087,950**	**1,918,192**	**169,758**	**72,147**	**1,100,805**	**976,053**	**124,752**	53,020
GPIC	33.33%	**167,607**	**25,286**	**142,321**	**47,436**	**73,448**	**72,616**	**832**	277
TKOC	42.5%	**350,587**	**176,008**	**174,579**	**74,196**	**176,550**	**97,042**	**79,508**	33,791
OULA	24%	**89,847**	**29,885**	**59,962**	**14,391**	**121,409**	**117,931**	**3,478**	835
SOUR	24%	**72,820**	**13,526**	**59,294**	**14,231**	**120,411**	**117,010**	**3,401**	816
Joint Ventures									
TKSC	57.5%	183,321	89,192	**94,129**	**54,124**	148,918	116,470	32,448	18,658
OKQ8	50%	388,894	210,814	**178,080**	**89,040**	680,900	646,907	33,993	16,997
NSRP	35.1%	2,013,900	1,350,975	662,925	232,687	-	26,040	(26,040)	(9,140)
		5,701,014	4,064,942	1,636,072	644,814	2,499,494	2,242,924	256,570	117,311

The Group's share in the contingent liabilities of associates was KD 9 million (2016: KD 21 million) representing letters of guarantee issued to third parties.

On 23 June 2016, Equate, an associate of PIC, entered into a US$ 5 billion, equivalent to KD 1,526 million, long term loans with a consortium of banks. The long term loans consisted of US$ 2 billion Tranche A 5-years bullet facility, US$ 2 billion Tranche B 3-years bullet facility and US$ 1 billion 3-years revolving credit facility. Equate is jointly and severally a guarantor with TKOC for the term loan and the credit facilities which includes customary covenants.

Further, Equate also issued US$ 4 billion, equivalent to KD 1.2 billion, global medium term notes ("GMTN"). The payments of all amounts due in respect of GMTN are unconditionally and irrevocably guaranteed by Equate and TKOC. In addition, Equate also entered into a US$ 2 billion, equivalent to KD 611 million, Sukuk Programme guaranteed by TKOC.

31 March 2016	Ownership	Total assets	Total liabilities	Net assets	Group's share of net assets/ carrying value of investments	Revenues	Expenses	Profit/ (loss)	Share of results
		KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Associates									
KDC	49%	300,125	206,929	93,196	45,666	62,063	56,633	5,430	2,661
EQUATE	42.5%	2,177,545	1,999,904	177,641	75,497	513,275	397,992	115,283	48,995
GPIC	33.33%	157,190	41,877	115,313	38,434	88,345	72,873	15,472	5,157
TKOC	42.5%	397,249	221,621	175,628	74,642	206,957	110,049	96,908	41,186
OULA	24%	82,642	23,884	58,758	14,102	108,249	104,241	4,008	962
SOUR	24%	73,101	15,434	57,667	13,840	104,560	100,413	4,147	995
Joint Ventures									
TKSC	57.5%	174,918	87,377	87,541	50,336	167,228	137,908	29,320	16,859
OKQ8	50%	365,395	205,670	159,725	79,863	733,120	721,590	11,530	5,765
NSRP	35.1%	1,723,712	1,041,186	682,526	239,567	-	20,877	(20,877)	(7,328)
		5,451,877	3,843,882	1,607,995	631,947	1,983,797	1,722,576	261,221	115,252

During the year, PIC acquired 25% of the issued shares of SK Advance Company Ltd. ("SK") for a purchase consideration of KD 30,341 thousand. SK is principally engaged in petrochemical industrial activities. At the date of acquisition, the fair value of acquired shares amounts to USD 118.4 per share as per the valuation carried out by an independent valuer. The valuer averaged fair value derived from three different valuation techniques such as income based, market and transaction techniques. No goodwill nor gain on bargain purchase was recognised from this transaction.

During the year, the Group received cash dividend of KD 103,974 thousand from equity accounted investees (2016: cash dividend received KD 98,288 thousand).

At the reporting date, the fair value of certain equity accounted investee amounted to KD 24,667 thousand (2016: KD 21,559) and has been categorized under level 1 of fair value hierarchy.

11. Inventories

	2017 KD'000	2016 KD'000
Crude oil	150,169	133,754
Liquefied petroleum gas	26,956	14,218
Refined petroleum products	528,383	321,959
Finished petrochemical products	10,345	6,937
Spare parts, materials and supplies	498,498	495,301
	1,214,351	972,169

At the reporting date, KNPC transferred inventories of KD 18,636 thousand to assets held for sale (Note 16).

12. Trade receivables

83% (2016: 83%) of trade receivables relates to the Corporation and one of its major subsidiary who deal mainly with state owned and international oil companies. Another major subsidiary operating mainly in Europe contributes approximately 11% (2016: 13%) of the consolidated total trade receivables and their receivables relate to a large number of corporate customers in that region. The Group's 12 largest customers account for 56% of outstanding trade receivables at 31 March 2017 (2016: 55%).

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

Trade receivables include KD 398 million (2016: KD 341 million) receivable from Ministry of Electricity and Water.

13. Other receivables and prepayments

	2017 KD'000	2016 KD'000
Advances to contractors	984,653	1,076,867
Receivable from exchange and concession partners	101,661	87,620
Marine sub-charter	31,207	23,845
Amount due from the Public Authority for Industry (PAI)	57,463	57,463
Prepaid expenses	29,215	30,864
Refundable deposits	13,225	13,531
Employee receivables	31,207	24,601
Other	323,591	450,619
	1,572,222	1,765,410

Amount due from the Public Authority for Industry (PAI) represents costs incurred by the Group to construct Sea Water Cooling Tower ("Project") on behalf of PAI. The Group started construction

on the project in May 2006 and was completed in 2009. On 19 November 2009, the Board of Directors of PAI approved the transfer subject to approval of Fatwa and legislation Bureau which was obtained in October 2012. Various communications were made between both parties towards finalising the transfer, however, due to budgetary constraints of PAI, the project has not been transferred till date.

14. Deferred tax assets and liabilities

Components of deferred tax assets/ (liabilities) are as follows:
a. Income taxes

	2017 KD'000	2016 KD'000
Profit or loss		
Current year expense	15,177	19,310
Deferred tax reversal	(21,147)	(113,436)
	(5,970)	(94,126)
Consolidated statement of financial position		
Deferred tax assets	451,778	349,391
Deferred tax liabilities (Note 21)	(184,235)	(144,908)
	267,543	204,483

b. Taxes receivable/ (payable)

Taxes receivable	16,970	19,199
Taxes payable	(177,526)	(209,243)
	(160,556)	(190,044)

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

15. Bank balances and cash

	2017 KD'000	2016 KD'000
Cash and current accounts at banks	1,314,008	1,434,525
Short-term bank deposits maturing within three months	1,210,088	2,573,110
Cash and cash equivalents	2,524,096	4,007,635
Short-term bank deposits maturing after three months	162,935	421,924
	2,687,031	4,429,559

Bank balances and cash include Pound Sterling 181 thousand, equivalent to KD 69 thousand (2016: Pound Sterling 180 thousand, equivalent to KD 78 thousand) recovered from former employees against whom the Corporation has initiated legal proceedings for financial irregularities (Note 35).

The corresponding amount of KD 69 thousand (2016: KD 78 thousand) is reported under other credit balances (Notes 22 and 35).

The interest rate on short-term deposits ranges from 0.03% to 1.85% (2016: interest rate ranges from 0.1% to 3.5%) per annum.

16. Assets held for sale

On 21 March 2017, following a study of viability of continuing operations of Shuiaba Refinery ("SHU"), the Board of Directors of KNPC, a wholly owned subsidiary of the Corporation, decided to discontinue the operations and shut down SHU effective 31 March 2017. Further, the Board of Directors of KNPC decided to transfer certain assets of SHU to other refineries of KNPC and dispose of the remaining assets. The management concluded that the above said transaction meets the criteria for classification of SHU assets as asset held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations and presented separately in the consolidated statement of financial position. The management expects that sale of SHU assets will be completed within one year from date of classification. Further, a Disposal Committee is established and actively working on identification and negotiation with the potential buyers of SHU assets. Following is the carrying value of assets at 31 March 2017, which are presented as held for sale:

	2017	2016
	KD'000	KD'000
Property, plant and equipment (Note 5)	37,003	-
Inventories (Note 11)	18,636	-
Provision for inventories	(14,908)	-
	40,731	-

17. Statutory reserve

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

18. Capital reserve

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

19. General reserve

In accordance with Article 12 of Law Decree No. 6 of 1980, 10% of the profit for the year attributable to equity holders of the Corporation is to be transferred to the general reserve, the percentage of which may be changed in accordance with a resolution of the Supreme Council for Petroleum (Note 24).

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

Article 10 of Law Decree No. 6 of 1980 states that the Corporation may provide part from its profits to meet the costs of replacement and renewal of the Corporation's and its subsidiaries' property, plant and equipment, after approval of the Supreme Council for Petroleum. The reserve is based on the difference between depreciation, calculated on the historical cost of the property, plant and equipment of the Corporation and its Kuwaiti subsidiaries, and depreciation calculated on the replacement cost of assets using their insured (generally replacement) values. The management has proposed to transfer KD 100 million to the reserve as at 31 March 2017 (2016: KD 314 million), which is subject to approval of the Supreme Council for Petroleum.

21. Non-current liabilities

	2017 KD'000	2016 KD'000
Employees' terminal benefits (Note 21.1)	823,784	791,806
Pension fund liabilities (Note 21.1)	32,860	32,119
Long-term loans (Note 21.2)	1,920,001	1,209,002
Deferred tax liabilities (Note 14a)	184,235	144,908
Provisions (Note 21.3)	61,294	56,206
Others (Note 21.4)	446,779	422,717
	3,468,953	2,656,758

21.1. Employees' terminal benefits and Pension fund liabilities

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

The latest actuarial valuations took place between 31 December 2016 to 31 March 2017, and these showed that the funds and schemes in the United Kingdom, Belgium, Germany and Italy had a net deficit. The main assumptions used in the actuarial valuation were a rate of pension increase ranging from 1.75% to 3.2 per annum (2016: 1.75% to 3% per annum), an annual salary increase ranging from 0% to 4.8% per annum (2016: 0% to 4.5%% per annum) and a discount rate ranges from 1.3% to 2.6% per annum (2016: 1.3% to 3.5% per annum).

Sensitivity analysis

A 0.25% increase/ decrease in the rate of pension increase, discount rate and annual salary at 31 March 2017 would not have any significant effect on the pension fund liabilities as of that date.

21.2. Long-term loans

The long-term loans mainly represent third party loans obtained by KARO , KPC-Aruba, KUFPEC and KNPC.

On 17 May 2007, the KARO's subsidiary signed a US$ 1,400 million term debt facility agreement with a consortium of banks which includes commercial facilities of US$ 1,053 million and an Islamic loan facility of US$ 347 million. The term loan is repayable over a period of 11 years in biannual instalments starting from 15 December 2010 and maturing on 15 June 2021. The coupon rate on this facility is LIBOR + 0.4% till the completion of the project, LIBOR + 0.45% till 7th anniversary of the project, LIBOR +0.6% till 10th anniversary of the project and LIBOR + 0.7% till the maturity date. The effective interest rate on the outstanding loan was 1.19% (2016: 0.83%) per annum. The facility contain certain financial covenants which are being met by the Group. The facility is secured by a charge over the property, plant and equipment (Note 5).

The long term loans to KPC-Aruba are denominated in Euro and bear various interest rates. In 2014, KPC-Aruba secured a Euro 450 million long term loan, equivalent to US$ 484 million, the proceeds of which were used for the acquisition of certain entities.
In prior year, the KPC-Aruba renegotiated the above long-term loan facility of Euro 450 million, equivalent to US$ 481 million (2016: US$ 512 million). Under the new terms of the agreement, 30% of the amount borrowed is payable in 2017-18, 30% in 2018-19, 20% in 2019-20 and the remaining 20% in 2020-21. The loan bears interest at 6 monthly EURIBOR plus 0.85% (2016: interest rate at 6 monthly EURIBOR plus 0.85%). The facility contain certain financial covenants which are met by KPC-Aruba.

In prior year, along term loan facility has been secured Milazzo Refinery, a joint operation. The Group's share of amount outstanding at the reporting date is Euro 60 million, equivalent to US$ 64 million. The loan carries an interest rate at 3 monthly EURIBOR plus 3.25% and is repayable in 2020.

As of 31 December 2016, KUFPEC had the following two borrowing facilities:
i. First borrowing facility with principal amount of US$ 1,000 million, equivalent to KD 308 million, is unsecured and its average interest rate during 2016 was 1.87% (2015: 1.54%) per annum. It is repayable in 7 half yearly instalments of US$ 143 million, equivalent to KD 44 million, from July 2015 and will be fully repaid in year 2018.

ii. Second borrowing facility with principal amount of US$ 2,500 million, equivalent to KD 769 million, is unsecured and its average interest rate during 2016 was 1.78% (2015: 1.59%) per annum. It is repayable in 7 half yearly instalments of US$ 357 million, equivalent to KD 110 million, starting from 2016 and will be fully repaid in year 2019.

On 28 April 2016, KNPC entered into a long term loan agreement ("Facility") of KD 1.2 billion with a consortium of banks. The Facility consists of both conventional and Islamic financing and is repayable in semi-annual instalments of KD 80 million from April 2019 till 28 April 2026. The Facility carries an interest rate of 1% per annum over and above the Central Bank of Kuwait discount rate and is unsecured. The funds were specifically borrowed to finance the CFP. At the reporting date, KNPC drawdown KD 1,097 million.

On 30 March 2017 and 24 May 2017, KNPC signed a US$ 6.2 billion financing agreement to finance the CFP with International Export Credit Agencies.

21.3. Provisions

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

	2017 KD'000	2016 KD'000
Environmental (Note i)	60,549	55,436
Restructuring and others (Note ii & iii)	745	770
	61,294	56,206

i. Environmental

The Group has accrued for costs associated with environmental clean-up, principally relating to Belgium and Italy. In Belgium, costs are expected to be incurred in the next one to three years and have not been discounted as the net effect of interest and inflation is not considered to be material. There is a related non-current government receivable which relates to contributions to clean-up costs received from a scheme funded by fuel levies set up by the Belgian government. Costs related to logistic facilities and the ex-refinery at Naples in Italy are now expected to be incurred in the next 7 years which is sooner than previously foreseen and results in the substantial increase in the current portion of the provision. These remediation costs have been adjusted for inflation and discounting costs related to logistic facilities at Silone in Italy are expected to be incurred following the closure of the facility expected in 2017. These remediation costs have not been adjusted for inflation and discounting as the impact is not considered material. However, the decision on closure of facility is deferred.

ii. Restructuring

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

iii. Other

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

21.4. Others

As at 31 March 2017, non-current liabilities includes an amount of KD 309,385 thousand (2016: KD 243,321 thousand) which represents provision for decommissioning costs related to KUFPEC.

KUFPEC makes full provision for the future cost of decommissioning oil producing facilities and pipelines on a discounted basis on the installation of those facilities. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred when the producing oil and gas properties are expected to cease operations.

These provisions have been estimated based on the Subsidiary›s internal estimates using operators estimates where applicable. The discount rate used in the calculation of the provision equalled to 3.5% (2016: 3.5%).

22. Other payables and accruals

	2017 KD'000	2016 KD'000
Borrowings	549,659	353,616
Provision for annual leave and accrued compensation	150,626	163,997
Payable to contractors	268,165	432,207
Accruals	528,750	345,742
Retention payable	180,817	89,950
Payable to exchange partners	88,362	64,271
Other credit balances	285,842	281,869
	2,052,221	1,731,652

Borrowings represents short-term loans, including bank overdraft, and current portion of long term loans. Short-term loans are unsecured and bear interest at prevailing market rates (Note 21.2).

Other credit balances include funds recovered from former employees, against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities, together with accumulated interest (Notes 15 and 35).

23. Amounts due to Ministry of Oil

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

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

24. Profit available for distribution

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

25. Revenues from consultancy and other operations

	2017 KD'000	2016 KD'000
Consultancy and construction	-	8,883
Marine operations	15,602	38,149
Merchandise and other services	47,666	45,350
	63,268	92,382

26. Investment income

Investment income mainly represents income from managed portfolios.

27.Other income (net)

	2017 KD'000	2016 KD'000
Recovery of financial cost	272,636	216,676
Foreign currency exchange gain	16,512	66,970
Miscellaneous income- net	43,517	24,608
	332,665	308,254

28.Directors' remuneration

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

29. Staff costs

Total staff costs for the year amounting to KD 1,347,508 thousand (2016: KD 1,405,654 thousand) are included in cost of revenues and general and administrative expenses shown on the consolidated statement of comprehensive income. Of the staff costs for the year, KD 986,986 thousand (2016: KD 1,032,380 thousand) has been included in cost of revenues and KD 360,522 thousand (2016: KD 373,274 thousand) has been included in general and administrative expenses.

Staff costs consist of the following:

	2017 KD'000	2016 KD'000
Salaries, wages and other benefits	1,313,209	1,366,489
Pension and other retirement benefit expenses:		
- defined contribution	9,316	6,314
- defined benefit	14,900	22,405
Compensation of key management personnel (Note 32):		
- short-term benefits	6,332	6,593
- termination benefits	3,751	3,853
	1,347,508	1,405,654

30. UN compensation claims

In respect of losses suffered as a result of the Iraqi invasion and occupation of Kuwait in 1990, the Governing Council of the United Nations Compensation Commission has approved an amount of USD 18,864 million, equivalent to KD 5,689 million, to the Group and the Government of the State of Kuwait for payment as and when funds become available.

As at 31 March 2017, the Corporation received USD 12,932 million, equivalent to KD 3,900 million (2016: USD 12,932 million, equivalent to KD 3,900 million).

During the year, no compensation claims received from the United Nations (2016: Nil).

31.Fair value information

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Investment securities classified as 'Available for sale' are stated at fair values except for certain investments carried at cost. For other financial asset and liabilities carried at cost less impairment or amortized cost, the carrying value is not significantly different from their fair values as most of these assets and liabilities are of short term maturity or re-priced immediately based on market movement in interest rates.
The Group, mainly through a wholly owned foreign subsidiary, uses derivative financial instruments for managing risks arising from changes in crude oil and petroleum product prices, exchange rates and interest rates. The Group does not use derivatives for speculative purposes.

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

	2017 KD'000	**2016 KD'000**	**2017 KD'000**	**2016 KD'000**
Foreign exchange contracts	675,176	619,226	206,097	187,208

The net fair value of these contracts was asset of KD 2,106 thousand (2016: KD 5,049 thousand), level 2 inputs. The above amount is included in foreign currency exchange gain in the consolidated statement of profit or loss and other comprehensive income.

Determination of fair value and fair value hierarchy:
The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:
Level 1: quoted prices in active market for the same instrument.
Level 2: quoted prices in active market for similar instruments or other valuation techniques for which all significant inputs are based on observable market data and
Level 3: valuation techniques for which any significant input is not based on observable market data

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

	Level 1 **KD'000**	Level 2 **KD'000**	Level 3 **KD'000**	Total **KD'000**
31 March 2017				
Available-for-sale financial assets	6,731,107	66,607	-	6,797,714
31 March 2016				
Available-for-sale financial assets	6,708,470	63,773	-	6,772,243

There have been no transfers between fair value levels during the year ended 31 March 2017.

The above table does not include KD 175 million (2016: KD 108 million) of available-for-sale financial assets that are measured at cost, less any impairment losses, and for which disclosure of fair value is not provided.

32. Related parties

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

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

	Associates and joint ventures KD'000	Other related parties KD'000	Total 2017 KD'000	Total 2016 KD'000
Purchases	2,258	-	2,258	27,641
Sales	193,365	-	193,365	224,403
Cost of production	33,196	-	33,196	36,546
Marketing fees received	1,542	-	1,542	1,596
Provision for doubtful debts	-	4,398	4,398	-
Compensation of key management personnel (Note 29)	-	9,741	9,741	10,446

Balances with related parties included in the consolidated statement of financial position are as follows:

	Associates and joint ventures KD'000	Other related parties KD'000	Total 2017 KD'000	Total 2016 KD'000
Non-current receivables from joint venture	127,435	-	127,435	63,647
Due from related parties	4,039	759	4,798	5,368
Trade receivables and prepayments	43,197	-	43,197	31,414
Other payables and accruals	-	-	-	10,448
Due to related parties	3,724	7,47	4,471	5,006

33.Financial risk management

The Group has exposure to the following risks from its use of financial instruments:
- **credit risk**
- **liquidity risk**
- **market risk.**

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Chief Executive Officer has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The Risk Management Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. The Group has estimated and gathered all factors relating to the exposure of credit risk.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. Approximately 56% (2016: 55%) of the Group's outstanding trade receivables is attributable to transactions with 12 customers (Notes 8 and 12). However, geographically there is no significant concentration of credit risk.

The Pricing Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer particularly for long term sales contracts, which represents the maximum open amount without requiring approval from the Pricing Committee.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2017 KD'000	**2016 KD'000**
Other non-current assets (other than deferred expenses)	196,221	114,261
Available-for-sale investments	3,712,976	3,909,388
Trade receivables	3,261,330	2,228,091
Bank balances and cash	2,687,031	4,429,559
	9,857,558	10,681,299

The maximum exposure to credit risk net of impairment losses for trade receivables and other non-current assets (other than deferred expenses) at the reporting date by geographic region was:

	2017 KD'000	2016 KD'000
Middle east	1,081,317	713,503
Europe (other than United Kingdom)	2,150,044	1,128,913
United Kingdom	25,913	361,670
Other regions	200,277	138,266
	3,457,551	2,342,352

The maximum exposure to credit risk net of impairment losses for trade receivables and other non-current assets (other than deferred expenses) at the reporting date by type of customer was:

	2017 KD'000	2016 KD'000
Government	951,311	738,357
Private sector	2,506,240	1,603,995
	3,457,551	2,342,352

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross 2017 KD'000	Impairment 2017 KD'000	Gross 2016 KD'000	Impairment 2016 KD'000
Not past due	2,751,642	-	1,626,610	-
Past due not more than one year	413,630	-	508,610	-
Past due more than one year	117,347	(21,289)	116,314	(23,443)
	3,282,619	(21,289)	2,251,534	(23,443)

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

	2017 KD'000	2016 KD'000
Balance at 1 April	23,443	25,255
Provision recognised	618	256
Provision no longer required	(2,772)	(2,068)
Balance at 31 March	21,289	23,443

Investments

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

Liquidity risk

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

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

2017

	Carrying amount KD'000	6 months or less KD'000	6 to 12 months KD'000	1 - 2 years KD'000	2 - 5 years KD'000	More than 5 years KD'000
Non-derivative financial liabilities						
Long term loans and borrowings	2,469,659	22,774	526,885	83,334	1,219,666	617,000
Trade payables	1,168,884	-	1,168,884	-	-	-
Other payables and accruals	1,635,460	-	1,635,460	-	-	-
Taxes payable	177,526	20,617	156,909	-	-	-
Amounts due to Ministry of Oil	1,990,838	1,990,838	-	-	-	-
	7,442,367	2,034,229	3,488,138	83,334	1,219,666	617,000

2016

	Carrying amount KD'000	6 months or less KD'000	6 to 12 months KD'000	1 - 2 years KD'000	2 - 5 years KD'000	More than 5 years KD'000
Non-derivative financial liabilities						
Long term loans and borrowings	1,603,581	8,092	345,197	83,974	1,141,274	25,044
Trade payables	981,201	-	981,201	-	-	-
Other payables and accruals	1,445,863	-	1,445,863	-	-	-
Taxes payable	209,243	22,403	186,840	-	-	-
Amounts due to Ministry of Oil	1,545,068	1,545,068	-	-	-	-
	5,784,956	1,575,563	2,959,101	83,974	1,141,274	25,044

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, the Euro, USD and Pound Sterling (GBP). The Group's exposure to the risk of changes in foreign exchange rates relates primarily to such operating activities and the Group's net investments in foreign subsidiaries. The currencies in which these transactions primarily are denominated are Euro, USD, GBP, Australian Dollar (AUD), Japanese Yen (JPY) and Bahraini Dinar (BHD).

The Group's net significant exposure to foreign currency risk was as follows based on notional amounts.

	2017	**2016**
	Equivalent position long/(short)	Equivalent position long/(short)
	KD'000	KD'000
EURO	239,750	274,897
USD	8,728,080	9,142,030
GBP	131,112	128,590
AUD	101	95
JPY	200,757	4,781
BHD	(638)	46,113
Others	3,415,974	2,916,959

Sensitivity analysis

A five percent strengthening of the KD against the following currencies at 31 March 2017 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2016.

Effect in thousands of Kuwaiti Dinars	**Equity**	**ro tfiorP (ssol)**
2017		
EURO	(11,988)	(11,988)
USD	(436,404)	(101,277)
GBP	(6,556)	(6,556)
AUD	(5)	(5)
JPY	(10,038)	(10,038)
BHD	32	32
Others	(170,799)	(170,799)
	(635,757)	(300,630)

Effect in thousands of Kuwaiti Dinars	**Equity**	**ro tfiorP (ssol)**
2016		
EURO	(13,745)	(13,745)
USD	(457,102)	(133,105)
GBP	(6,429)	(6,429)
AUD	(5)	(5)
JPY	(239)	(239)
BHD	(2,306)	(2,306)
Others	(145,848)	(145,848)
	(625,674)	(301,677)

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

	2017	2016
	KD'000	KD'000
Variable rate instruments		
Financial assets	5,213,434	6,947,414
Financial liabilities	(2,469,659)	(1,603,580)
Net exposure	2,743,775	5,343,834

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased or decreased profit before taxation by KD 27,438 thousand (2016: KD 53,438 thousand).

Other market price risk

Equity price risk arises from available-for-sale equity securities. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices.

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

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

Sensitivity analysis

For the majority of the Group's equity investments, quoted market prices are readily available. For such investments classified as available-for-sale, a 3% increase or decrease in stock prices at the reporting date would have increased or decreased equity by KD 92,392 thousand (2016: an increase or decrease of KD 85,262 thousand). The analysis is performed on the same basis for the year ended 31 March 2016.

Capital management

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

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

Neither the Corporation nor any of its subsidiaries are subject to externally imposed capital requirements.

34.Expenditure commitments

a) Operating lease commitments

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

	2017 KD'000	**2016** KD'000
Future minimum lease payments:		
Within 1 year	35,951	33,363
Between 1 and 5 years	99,476	97,299
After 5 years	92,745	93,319
	228,172	223,981

b) Other commitments

	2017 KD'000	2016 KD'000
Estimated capital expenditure contracted for at the reporting date	3,026,894	4,308,942
Supply commitments	377,527	493,716
Share capital commitment	1,350,000	-

The Group›s foreign subsidiary fuel marketing operations in Belgium and The Netherlands have entered into third-party supply contracts with BP, Lotos and VARO, which require certain contractual volume uplifts. Such binding commitments are lower than existing operational needs and the monetary value of these commitments will rise and fall in line with the market price of the products involved.

35. Contingent assets/ liabilities

Contingent assets

Legal case

a. A new management that was formed in 1992 at one of the subsidiary companies discovered certain fraud cases and financial irregularities in the subsidiary company's contracts and bank accounts and, therefore, the subsidiary company's Board of Directors formed a fact-finding committee to investigate those irregularities.

On 6 January 1993, the subsidiary submitted a report to His Excellency the Attorney General on its suspicion about the occurrence of financial irregularities in previous years, whereby the Public Prosecution conducted the necessary investigations and prepared the indictment sheet in December 1993 and its regulation against five of the accused parties.

The accused, Abdul-Fatah Al-Badr, absconded before submitting the notification to His Excellency the Attorney General. Hassan Qabazard admitted the facts before the Attorney General, and made payment of US Dollars 6,200 thousand on allegation that this was the entire amount taken by him. This amount was deposited in a special bank account as a fixed deposit of the subsidiary which amounts to US Dollar 13,157 thousand equivalent to KD 3,754 thousand including interest at 31 March 2016 (2015: US Dollars 13,157 thousand equivalent to KD 3,754 thousand).

The case was deliberated before different Kuwaiti courts, culminating in the two cessation verdicts Nos. 137 and 138 of 1997.

Mandated by the former Minister of Oil, Sheikh Saud AI-Nasser Al·Sabah, the Company sent a letter to the Attorney General on 14 December 1998. The Attorney General considered this letter as a notification and transferred the same to the Investigating Committee concerned with court actions against Ministers, which, in its first formation, considered it as a notification and, subsequently, undertook the investigation procedures. The subsidiary provided the committee with 40 documents including those deliberated to the English courts with respect to the certain amounts embezzled by the accused parties or other parties. Subsequently this committee resigned and a new committee was formed on 29 April 2000. On 16 May 2001, the committee considered that the case was not fully complete, without discussions with any witness.

On 29 May 2001 the former Minster of Oil Adel Al-Subaih sent a notification to this committee against the five defendants. The defendants include the former Minister of Oil. On 19 May 2003, the committee considered the action as serious and heard statements of witnesses. On 30 October 2007, a resolution was issued from the Investigating Committee concerned with court actions to suspend the notification submitted against Sheikh Ali Al Khalifa due to the lack of evidence. On 26 December 2007, His Excellency the Minster of Oil by proxy submitted a grievance complaint from the suspension decision to the court of ministers and on 27 December 2007 the attorney of the subsidiary submitted another grievance complaint. The judgment was challenged before the court of Cessation. On 17 February 2009, the court ruled to dismiss the appeal.

In parallel steps, the subsidiary has initiated civil cases in the United Kingdom, Switzerland, and other countries, and with the efforts of those working on the case, it won the case filed in the United Kingdom and obtained a judgment against three of the defendants for an amount of US Dollars 136,000 thousand excluding interest. In addition to this, the case ended with the rejection by the UK House of Lords on 10 December 2000 of the appeal submitted by Abdul Fatah Al-Bader. An amount of US Dollars 85,351 thousand has been collected till 7 May 2006. This collected amount was invested in deposits. The collected amounts along with interest till 7 May 2006 amounted to US Dollars 92,757 thousand (which has been subsequently distributed) plus an amount of US Dollars 6,200 thousand transferred by the Public Prosecution from the accused Hassan Qabazard and received by the subsidiary in Kuwait, which was invested in a deposit renewable with its interest thereon pending a decision on crime No. 275193. The deposit of USD 6,200 thousand along with accumulated interest reached US Dollars 13,157 thousand till 31 March 2016 (31 March 2015: US Dollars 13,157 thousand). Legal measures are being carried out to collect the remaining balance. However, the uncollected amounts of US Dollars 151,709 thousand pending in the liability of the accused parties comprise of the balance remaining from the total amounts awarded in favour of the subsidiary according to the verdict from London, and inclusive of interest till August 2005 amounting to US Dollars 123,559 thousand plus such amounts, being the difference between the amounts claimed before London Court and those mentioned in the Public Prosecution Charge Report in connection with crime No.275/93 amounting to US Dollars 25,000 thousand, for which a civil case was filed where a final and conclusive verdict was announced in the session dated 7 March 2011 by rejecting the appeal, plus an amount of US Dollars 3,150 thousand (Chesapeake-selling debris of Surf City Vessel) for which a case was filed where a final and inclusive verdict was announced in hearing dated on 18 February 2014 in the appeal No. 9/commercial 2000/976 by rejecting the appeal. In 18 March 2014, appeal in cassation was filed against the rule and no hearing scheduled.

A committee was formed comprising of representatives of the subsidiary and Parent Corporation to distribute the amounts collected from the accused parties to the entitled parties, after deducting the expenses of the lawsuits from inception to date. Subsequent1y, the Audit Committee of Parent Corporation›s Board of Directors approved on 7 May 2006 the report submitted by the Company on the method of distributing the amounts collected from the accused parties, net of the expenses of the lawsuit from 1992-1993 till 2005-2006, as 54% to the Company and 46% to the Parent Corporation. Subsequent to the distributions made in 2006, the remaining distributable amount was US Dollars 61,607 thousand. The Parent Corporation›s share amounting to US Dollars 28,339 thousand was transferred on 24 May 2006.

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

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

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

By virtue of the award of the Court of Appeal for the case No. 2228/2003 (commercial/total), filed by the subsidiary and the Parent Company against Ms. Noura Ali Al Muzaini and Mr. Abdul Fattah Sulaiman Khaled Al-Bader, based on the judgment of the Court of Appeal dated 31/3/2015 that the defendants shall pay the subsidiary and its Parent Company USD 1,000,000 equals to KD 352,001. The Parent company received its share amounting KD 151,834, and the same was deposited in its account on 9 January 2017. Regarding the amount due to the subsidiary as a result of the same judgment, the formalities are being process for creating a power of attorney to the subsidiary's lawyer to be able to receive the amount of KD 151,834 as per the said judgment.

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

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

A hearing session was scheduled on 8 March 2012 as the first hearing for the appealled of cassation to the verdict No. 3273/2010 to commercial appeal / 5 and case under No. 133/2011 appeal of cassation, Commercial 4. On 12 April 2012 the court ruled to accept the two appeals in its form and regarding its merits the court referred the challenged verdict to court of cassation and obligate the first appellee (respondent) in both appeal cases to settle the expenses in addition to KD twenty as attorneys› fees. Secondly regarding the merits of 2 appeal cases No. 3273 and 3287 of 2010 commercial, the court resolved annulment of the appealed sentence and inadmissibility of the proceedings since it was previously ruled by the case No. 246 of 2002 commercial total and obligated the appellee in the 2 appeal cases to settle expenses for 2 degrees plus KD twenty for attorneys' fees.

Further, he filed a law suit No.3560/2010 (commercial/total) before the Kuwait courts to claim implementing a foreign verdict pronounced by London court in favor of subsidiary and SITKA on 17 October 2008. Also, he requested to annex the verdict in the executive formula. However, the law suit is still pending at the Kuwaiti courts. A first degree court verdict has been issued on 15 January 2012 to dismiss that proceedings which became final sentence.

Also the subsidiary attorney assigned to file a lawsuit before Kuwaiti courts under No. 1527/2012 civil total / 12 against the heirs of Abdul Fattah Al-Bader and others to claim the final compensation which includes the reported in the sentence in crime No.3589/94 felonies, public money jurisdiction94/245 Investigation department as well as the amounts subject to the judgment issued in London that the Court of Cassation rejected to annex in the executive formula since the case was deliberated by the Court of First Instance and on 4 December 2014 the Court sentenced to reject the case and the verdict has been appealed and registered under No. civil 5261/2014 civil. In 9 June 2015, the court amended the appealed judgment by dismissing the lawsuit on as is basis and confirmed other rulings. The subsidiary has filed appeal of cassation against the appealed judgement and registered under No. 1322/2015. Opponent also filed appeal of cassation enrolled under No. 1339/2015 and no hearing has been scheduled till date hereof.

b. Dry Cargo (358/94 crimes)

This case has been filed against five indictees. This case was referred to the Criminal Court on 2 April 2006 for charges of embezzling funds, illegal profits and forgery. The value of the amounts claimed in the Public Prosecution’s report amounted to approximately US$ 10,000 thousand.

In the hearing on 17 June 2006, the court ruled for the imprisonment of indictees for five years with labour and execution, to dismiss them from their jobs, oblige them to refund the embezzled funds, and fine each of them an amount equivalent to that embezzled by him, as well as to deport the third, fourth and fifth accused parties from the country after serving the said penalty, and to refer the civil case to the competent civil court. The fourth indictee challenged the verdict passed against him. In the hearing on 16 September 2006, the court ruled to dismiss the objection and upheld the challenged verdict, which was appealed by the second and fourth indictees. On 24 July 2007, a verdict was issued by the court of appeal condemning the accused and partially amending the judgment through deducting the equivalent of the present value in US dollars of an amount of KD 300 thousand paid by the second party of the adjudged fine and by refunding penalties as well as clearing the fourth indictee from crimes attributed to him. The appealed judgment was challenged before the Court of Cassation. On 13 May 2008, the court ruled to dismiss the appeal.

Contingent liabilities

a. The Group had contingent liabilities of approximately US$ 70 million, equivalent to KD 21.4 million, at 31 March 2017 (2016: US$ 54.4 million, equivalent to KD 16.5 million). These principally relate to a variety of tax, legal and regulatory disputes, all of which are being vigorously contested by one of the subsidiaries of the Group.

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

On 21 January 2013, Alitalia in temporary receivership summoned Kuwait Petroleum Italia S.p.a. and other oil companies before the Court of Rome for generic damages due to anti-competitive activities related to the supply of jet fuel. The Group›s legal counsel confirms the likelihood and existence of a contingent liability is possible. Because the amount requested is exorbitant and disclosure of potential loss could seriously prejudice the position of the Group, only the general nature of the dispute has been described. No amounts have been accrued in the consolidated financial statements. The most recent legal hearing was in December 2016 at which the case was referred for a decision. The ruling is expected to be published this year.

There is a long oustandong claim for compensation relating to the sale of assets and equipment of the former Naples refinery. A legal ruling is expected on the case in May 2017.

Subsequent to the sale of Europoort refinery in 2016, the buyer has filed a legal claim for compensation relating to the price agreement. The case is being strongly defended and accordingly no provision was recorded. The case is expected to be concluded later in 2017.

b. In 2010, the KOC, a subsidiary of the Corporation, signed a contract with a contractor with a value of KD 405 million for construction of a capital project. In 2015, the contractor completed the project. Subsequently, the contractor submitted a claim to KOC amounting to KD 844 million allegedly claiming price differences in certain materials used in the project. The KOC's management has taken the necessary steps to resolve the dispute with contractor through the Company's Dispute Resolution Committee ("DRC"), however, the contractor did not accept the proposed solutions by DRC. Consequently, the contractor commenced an arbitration procedure in London Court of International Arbitration ("the LCIA") seeking payment of claimed amount. Currently, the case is pending before LCIA for hearings and discovery proceedings. The ultimate outcome of the matter cannot presently be determined and, accordingly, no provision for any adverse financial effects on the Group, that may result, has been made in its consolidated financial statements.

36. Investment in joint operations

Kuwait Gulf Oil Company K.S.C.C, a subsidiary, has participation in two joint operations for exploration, drilling, and production of oil and gas, which are as follows;

- Al Khafji Joint Petroleum Operation (“KJO”); and
- Wafra Joint Operation (“WJO”).

The consolidated financial statements include the following items that represent the Group’s 50% interest in joint operations:

	KJO		WJO	
	31 December 2016 KD’000	31 December 2015 KD’000	31 December 2016 KD’000	31 December 2015 KD’000
Statement of financial position				
Total assets	932,717	936,076	387,480	413,545
Total liabilities	(161,076)	(185,188)	(50,696)	(50,944)
Net assets	771,641	750,888	336,784	362,601
Proportionate share in joint operation capital commitment	87,756	156,699	13,425	14,987

Proportionate share in joint operating lease commitments

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

	31 December 2016 KD’000	31 December 2015 KD’000
Not later than one year	12,371	2,769
Later than one years and not later than five year	24,985	16,472
Later than five years	1,475	132
	38,831	19,373

A decision was taken unilaterally by the Chairman, Joint Operations Committee, KJO to shut down KJO’s crude oil production facilities with effect from 16 October 2014. This decision was neither endorsed by Joint Operations Committee nor Joint Executive Committee of KJO. The management is to preserve the KJO’s facilities during the shut down period. Furthermore, Dorra offshore gas field development continues to be on hold as at 31 December 2016 pending instructions from Khafji Joint participants.

Crude oil production at WJO has been stopped effective from 11 May 2015 to carry out maintenance activities.

Both KJO and WJO are expected to continue their business, as their managements have been instructed to continue with all drilling, maintenance operations and capital investment activities. Furthermore, both the KJO and WJO Joint Participants have been funding the activities based on cash calls.

Raffineria di Milazzo S.p.A.

The Group allocates revenues and expenses of its joint operation, Raffineria di Milazzo S.p.A., on the basis of the relative performance of each party to the joint arrangement and the parties have agreed to share the profit or loss relating to the arrangement on the basis of a specified proportion. The expected financial performance of the joint operation is designed to operate at break-even, or to generate losses that will be funded by the parties in the joint operation. The substantial part of the output produced at Raffineria di Milazzo S.p.A, is purchased by the parties in this joint arrangement.

The investment in Raffineria di Milazzo S.p.A is accounted for using the proportional consolidation method. As at 31 March 2017, the ownership remained unchanged. The consolidation method for revenues and expenses is made on the basis of the relative performance of each party to the joint arrangement.

The financial statements of Raffineria di Milazzo S.p.A are not presented since its not material for the Group.

37. Asset acquisition

In December 2016, the KUFPEC, through its wholly owned subsidiary KUFPEC Norway AS, acquired interests in a package of licenses on the Norwegian Continental Shelf. The licenses involved are the Sleipner licenses (producing - 9-10% share), Gina Krog (under development- 15% share), and Utgard (under development - 6% share) together with other exploration blocks - PL813, PL046B, PL046D and Eirin. The acquisition was settled in cash amounting to USD 396 million (equivalent in KD 121,691 thousand) and accounted for as an asset acquisition in accordance with IAS 16- Property, plant and equipment.

Detail of assets acquired are as follows:

	2017 KD'000
Property, plant and equipment	117,267
Trade and other receivables	5,810
Inventories	2,645
Deferred tax assets	41,524
Decommissioning provision	(36,818)
Trade and other payables	(8,737)
Net assets	121,691

38. Gain on sale of subsidiaries and joint ventures

	2017 KD'000	2016 KD'000
KP Europoort B.V.	-	112,187
PICCAN Holding Inc.	-	186,781
MEGLOBAL B.V.	-	82,646
	-	381,614

39. Subsequent events

On 31 January 2017, the Group, through its wholly owned subsidiary KUFPEC Thailand Holdings Pte. Limited, signed definitive agreements to acquire shares of Shell Integrated Gas Thailand Pte. Limited and Thai Energy Company limited ("the acquirees") for USD 900 million (equivalent to KD 277 million). The acquirees together hold a 22.22% equity stake in the Bongkot field, and adjoining acreage offshore Thailand consisting of Blocks 15, 16 and 17 and Block G12/48.

As of the date of approval of these consolidated financial statements, the procedures formalities are still in progress and are expected to be completed before 31 December 2017. Accordingly, the said acqusitions is disclosed as non-adjusted event in accordance with IAS 10- Events after the Reporting Period.

On 10th April 2017, KPC- Aruba, a subsidiary, signed a 50:50 percentage partnership agreement with Oman Oil Company to establish a joint venture to build and operate a 230,000 barrel per day refinery at Duqm in the Sultanate of Oman. A final investment decision on the project is expected later in 2017.

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

	Crude Oil (mmbbls)	Gas (eobmm)	Total (eobmm)
Proved and probable reserves at beginning of year			
- Fields in production	42.40	90.10	132.50
- Projects under development	52.10	271.35	323.45
	94.50	361.45	455.95

Changes during the year			
- Discoveries	7.97	5.91	13.88
- Revision of previous estimates	(23.55)	(14.59)	(38.14)
Additions associated with 2016 and 2017 acquisitions	33.00	80.46	113.46
- Production associated with 2016 and 2017 acquisitions	(3.06)	(14.45)	(17.51)
- Production	(7.50)	(14.79)	(22.29)
	6.86	42.54	49.40
Proved and probable reserves at end of year			
- Fields in production	51.87	130.75	182.62
- Projects under development	49.49	273.25	322.74
	101.36	404.00	505.36

Proven reserves are the quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Probable reserves are those additional reserves which are not yet proven but together with proven reserves are estimated to have a 50% or better chance of being technically and economically producible. Oil reserves include the oil equivalent of natural gas. Oil and gas reserves cannot be measured exactly since estimation of reserves involves subjective judgment and arbitrary determinations. Therefore, all estimates are subject to periodic revision. The above oil and gas reserves belong to one of the group companies and relate to the Group's reserves outside Kuwait.

Reserves, reserves volumes and reserves related information and disclosures are referred to as "unaudited" as a means of clarifying that this information is not covered by the audit opinion of the independent auditor that has audited and reported on the Group's consolidated financial statements.

41.Comparative figures

Where necessary, certain comparative figures have been reclassified to conform to the current year's presentation. Such reclassifications did not affect previously reported profit or loss, equity or opening balances of the earliest comparative period presented.

42.Subsidiaries, associates and joint ventures

a) Principal subsidiaries registered in the State of Kuwait:

Directly held Name of company	Proportion held	Principal activities
Kuwait Oil Company K.S.C. ("KOC")	100%	Exploration for and production of crude oil and natural gas in the State of Kuwait.
Kuwait National Petroleum Company K.S.C. ("KNPC")	100%	Refining, LPG manufacturing, and local marketing of refined products.
Kuwait Integrated Petroleum Industries Company K.S.C.C.* ("KIPIC")	100%	Refining, LPG manufacturing, and local marketing of refined products.
Kuwait Oil Tanker Company S.A.K. ("KOTC")	100%	Operation of a fleet of crude oil tankers and liquefied petroleum gas and oil product carriers.
Petrochemical Industries Company K.S.C. ("PIC")	100%	Production of petrochemical products and their distribution and marketing.
Kuwait Foreign Petroleum Exploration Company K.S.C. ("KUFPEC")	100%	Exploration for and development of oil and gas outside the State of Kuwait.
Kuwait Aviation Fuelling Company K.S.C. ("KAFCO")	100%	Supply of aviation fuel.

Kuwait Gulf Oil Company K.S.C. (Closed) ("KGOC")	100%	Exploration for and production of crude oil and natural gas.
Oil Sector Service Company K.S.C. (Closed) ("OSSCO")	100%	Liaison, public services and oil sector supporting services.

Indirectly held Name of company	**Proportion held**	**Principal activities**
Kuwait Aromatics Company K.S.C.C. ("KARO")	80%	Producing and selling perfume products and other derivatives.

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

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

c) Principal associates

Name of company	**Country of incorporation**	**Proportion held**	**Principal activities**
Kuwait Drilling Company K.S.C. ("KDC")	Kuwait	49%	Contract drilling
Equate Petrochemical Company K.S.C. ("EQUATE")	Kuwait	42.5%	Petrochemicals
Gulf Petrochemical Industries Company B.S.C. ("GPIC")	Kuwait	33%	Petrochemicals
Kuwait Olefins Company K.S.C.C. ("TKOC")	Kuwait	42.5%	Petrochemicals
Al-Oula Local Fuel Marketing Company K.S.C. ("OULA")	Kuwait	24%	Fuel marketing
Al-Sour Fuel Marketing Company K.S.C. ("SOUR")	Kuwait	24%	Fuel marketing
Equate Marketing Company E.C. ("EMC")	Bahrain	49.9%	Fuel marketing

d) Principal joint ventures

Name of company	Country of incorporation	Effective equity interest as at 31 March 2017
The Kuwait Styrene Company K.S.C.C. ("TKSC")	Kuwait	57.5%
OKQ8 AB ("OKQ8")	Sweden	50%
Nghi Son Refinery Product ("NSRP")	Vietnam	35.1%

e) Principal joint operations

Name of company	Country of incorporation	Effective equity interest as at 31 March 2017
Reffineria di Milazzo S.P.A.	**Italy**	50%
Al Khafji Joint Petroleum Operation ("KJO")	**Kuwait**	50%
Wafra Joint Operation ("WJO")	**Kuwait**	50%

*On 18 October 2016, the Corporation established Kuwait Integrated Petroleum Industries Company ("KIPIC"), a 100% owned subsidiary, with an authorised share capital of KD 1.8 billion, issued and paid up share capital of KD 450 million as at 31 March 2017. As per the articles of association, the Corporation will inject the remaining portion of authorised share capital of KD 1.35 billion within five years from the date of establishment of KIPIC.

KIPIC will operate Al Zour Refinery and Petrochemical Complex and Liquefied Natural Gas import facilities upon start of commercial operations, which is scheduled to be in 2019 and 2022 respectively.

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