

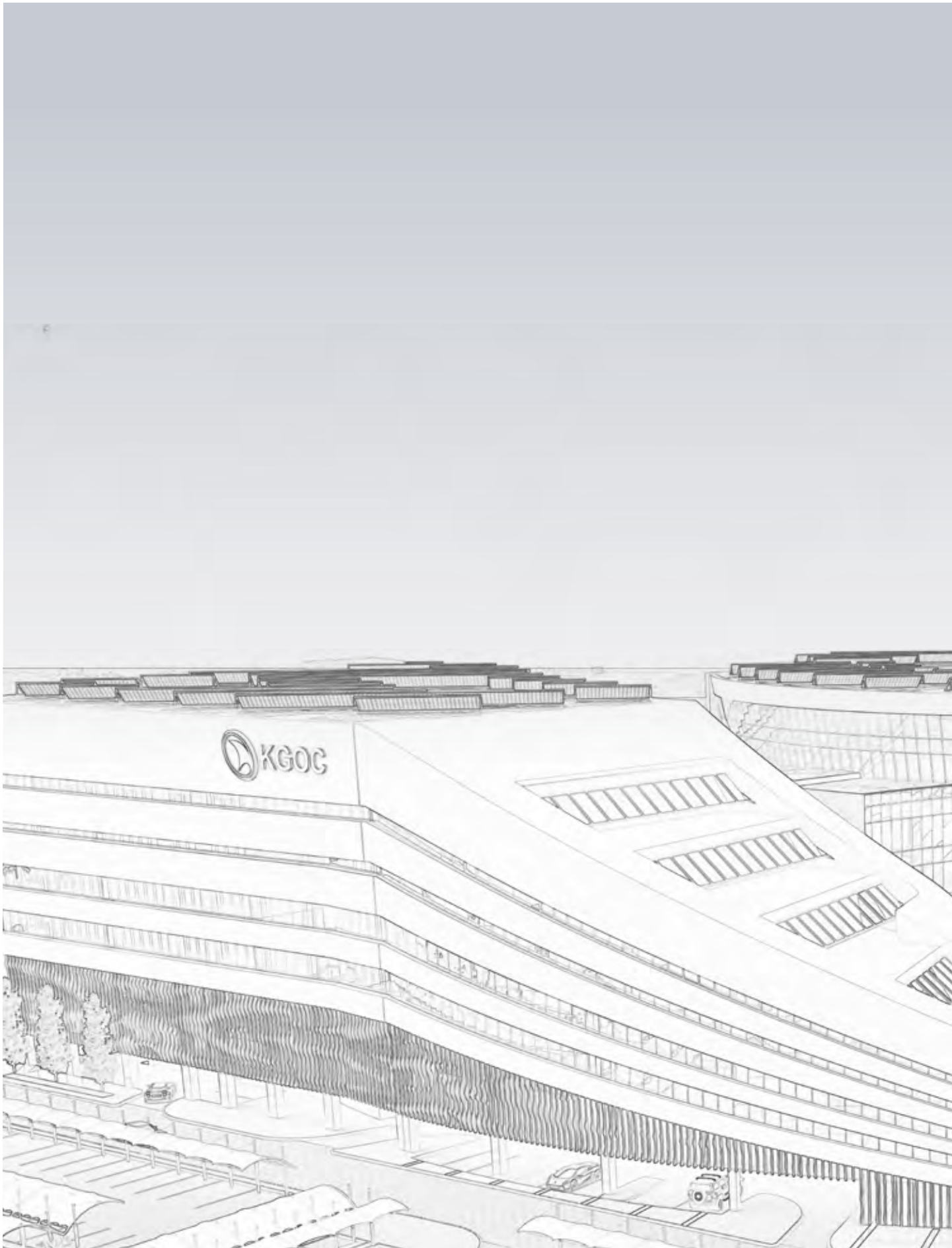


الشركة الكويتية لنفط الخليج (ش.م.ك.)
KUWAIT GULF OIL COMPANY (K.S.C)



**Determination
to Succeed**

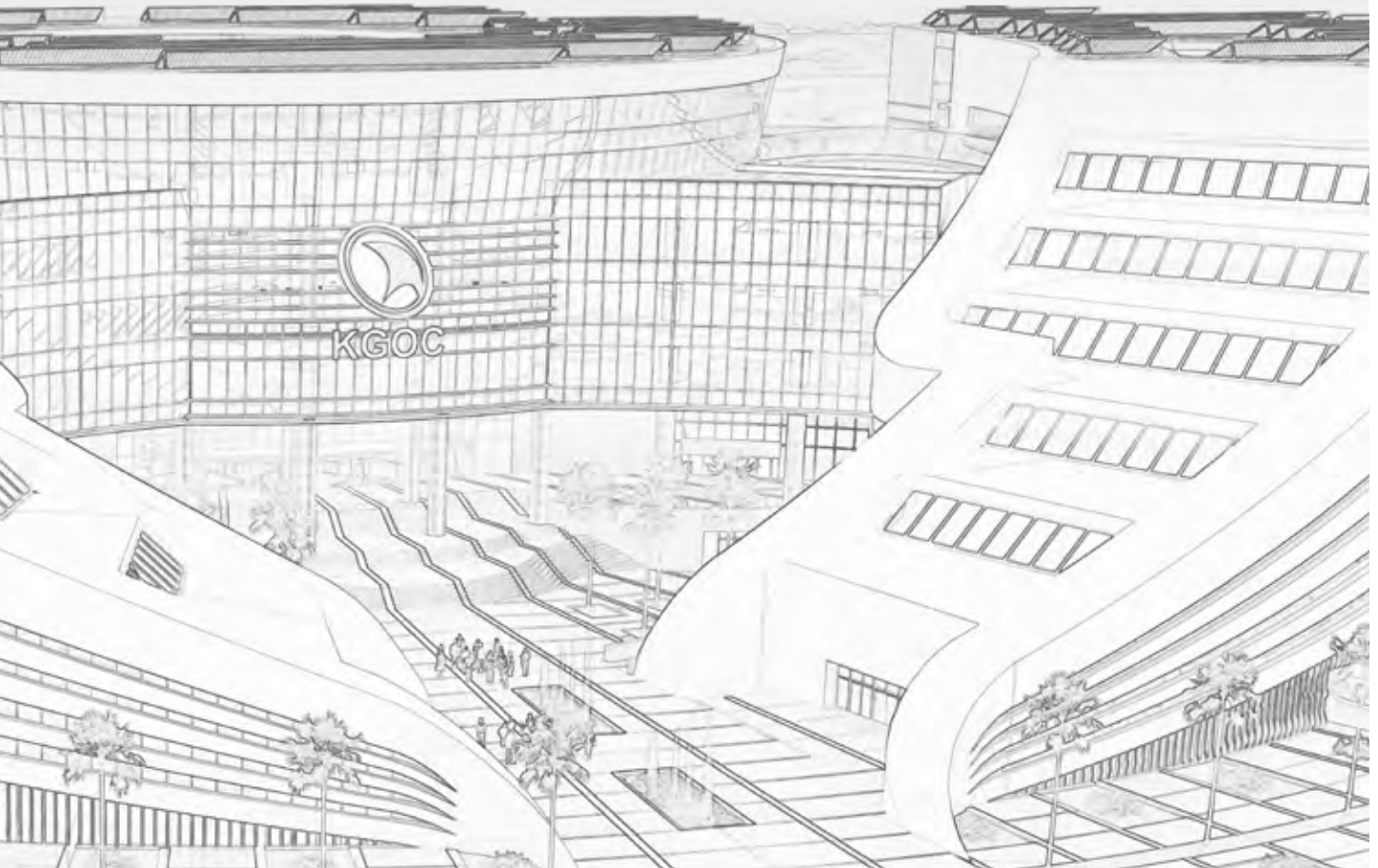
2020
ANNUAL REPORT

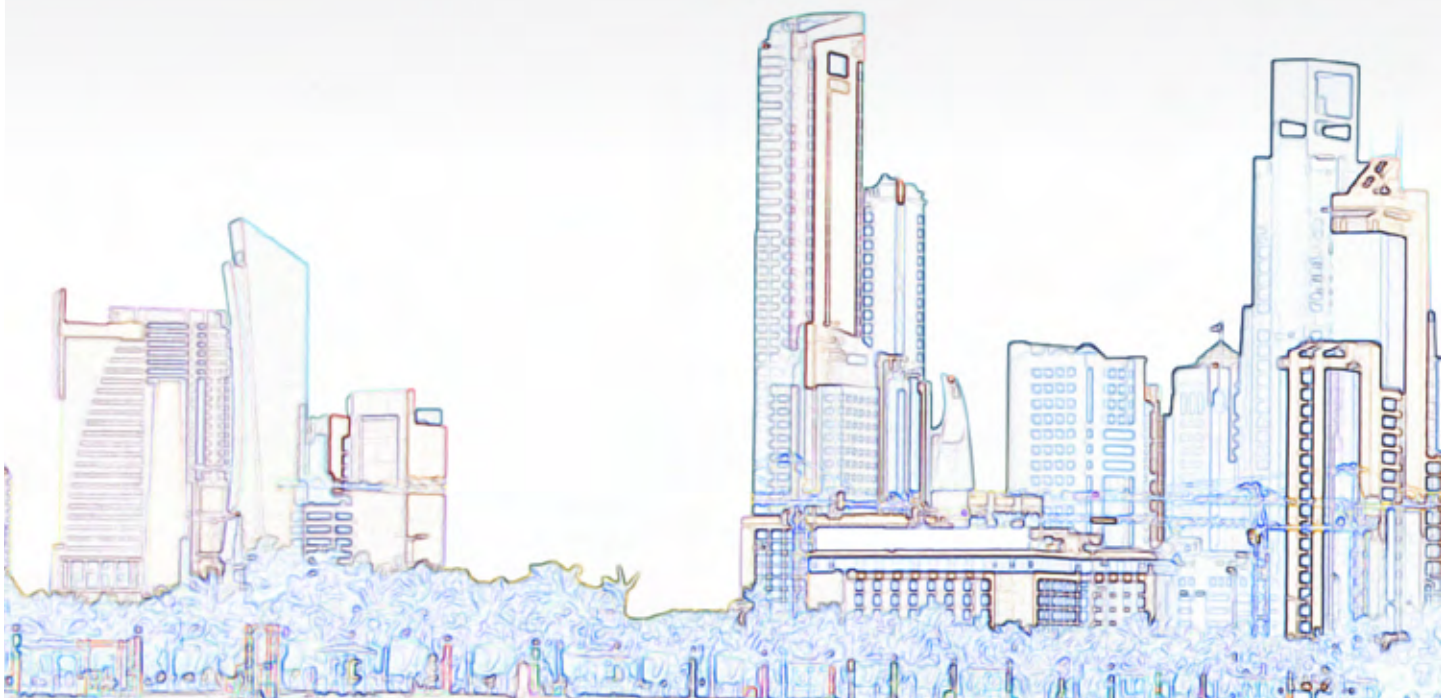


الشركة الكويتية لنفط الخليج (ش.م.ك)
KUWAIT GULF OIL COMPANY (K.S.C)

إحدى شركات مؤسسة البترول الكويتية
A Subsidiary of Kuwait Petroleum Corporation

Annual Report 2020







His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait



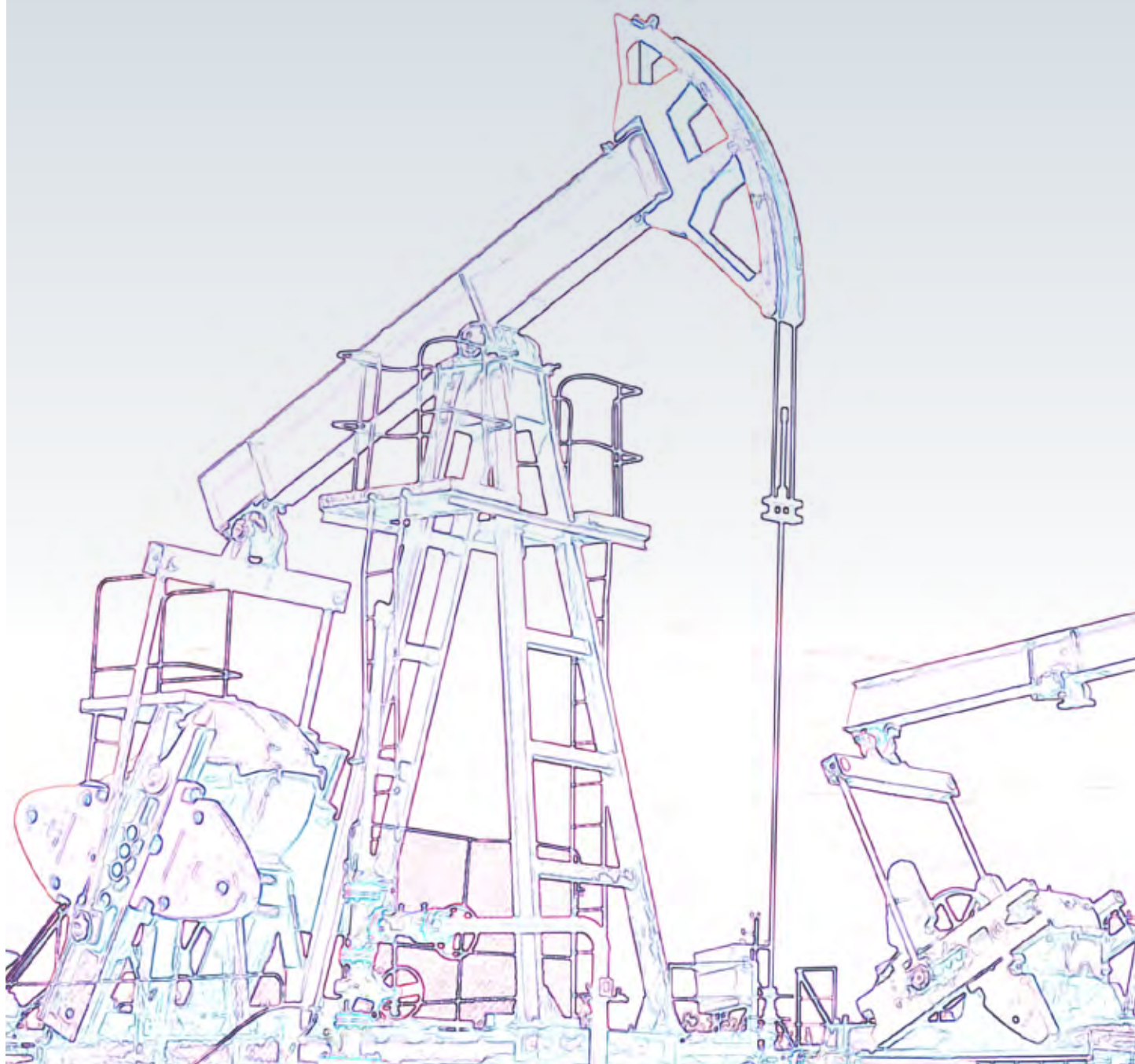
His Highness
Sheikh Meshal Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait



His Highness
Sheikh Sabah Al-Khalid Al-Sabah
Prime Minister of the State of Kuwait



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Board Members





Fouad Issa Al-Abbasi
Chairman



Khalifa Musaed Hamadah
Deputy Chairman



Abdullah Ali Al-Sumaiti
Board Member



Shk. Nimr Fahad Al Malek Al-Sabah
Board Member



Basim Essa Al- Essa
Board Member



Nayef Abdullah Al-Anezi
Board Member



Hassan Ali Bunayyan
Board Member



Abdullah Al-Sumaiti
Deputy CEO
Planning & Commercial Affairs



Mohammed Salem Al-Haimer
Deputy CEO
Joint Operations



Abdullah Matar Al-Shammari
Deputy CEO
Finance & Administration Affairs

Managers





Falah Al-Anezi
Manager Management Support



Bader Al-Harbi
Manager Legal Affairs



Abdullah Sayed Hashim
Manager Corporate Planning



Nasser Salem Rashid
Assets Management (Khafji)



Faisal Bader Al-Jeri
Manager Human Resources



Waleed AlKhaddah
Manager Commercial Affairs



Anwar Al-Sharqawi
Assets Management (Wafra)



Mona Al-Barjas
Manager Financial Services



Ahmed Abdullah Al-Awadhi
Manager Information
Technology & Services



Abdulaziz Dashti
Manager Risk Management



CEO Speech

It is a great pleasure, on behalf of myself and my colleagues in the executive branch, to present the KGOC's Annual Report that includes its significant achievements, works and activities for the Financial Year ended on 31st December 2020.

In a time of the unprecedented financial crisis that the State of Kuwait is going through due to the Coronavirus consequences and its impact on the financial and economic positions, and in exceptional circumstances experienced by the entire world due to the COVID-19 outbreak, a plan for KPC & its subsidiaries, to rationalize spending, postpone many projects, and consider all preventive and health measures, has been placed. To keep up with the said plan and with the health and precautionary measures issued by the State's competent authorities, KGOC has made every effort to ensure that the operations are not affected, as the Financial Year 2020 was marked with major efforts and achievements by all the Company's directorates and organizational groups.

In line with the directives issued by the State of Kuwait and the Kingdom of Saudi Arabia, and the Memorandum of Understanding concluded between them on December 24, 2019, Khafji Joint Operations (KJO) production was resumed on February 23, 2020, and Wafra Joint Operations (WJO) production was resumed on July 1, 2020. This achievement, which was an outcome of the considerable efforts made by the official authorities, especially the Ministry of Foreign Affairs and the Ministry of Oil, resulted in preparing and concluding the recent agreements between the two countries. In addition to the efforts of dedicated national labor of the Kuwaiti and Saudi sides in the two areas of joint operations to preserve the integrity of assets and facilities, and ensure their readiness to resume work, as well as the extensive preparations for the return of production according to the agreed-upon plans and procedures.

Out of the Company Management's keenness to implement the directives contained in the above-mentioned Memorandum of Understanding concerning the selection of two global Centers of Excellence by both Kuwait Gulf Oil Company (KGOC) and Saudi Arabian Chevron (SAC), provided that the two global Centers of Excellence select a third global Center of Excellence to appraise SAC installations, and administration and residential buildings, as well as export facilities, including pipelines and their campuses from Wafra to Al-Zour area, reservoirs, and the dockside, "export facilities" with a total area of one million nine hundred thousand square meters. Based on the said directions, the two sides selected Centers of Excellence, that completed the appraisal procedures



and submitted their final report which included the estimated costs of these assets, in preparation for KGOC to pay SAC its assessed share in the export facilities that include pipelines and their campus, reservoirs, and the dockside, and accordingly, these assets will become part of the facilities that are equally owned by the two partners in WJO.

This report reviews the most important efforts and achievements regarding the Maximizing the Strategic Value of Crude Oil, the Optimal Utilization of the Potential Value of Gas, and the Development of Oil Reserves to Ensure the Productions Sustainability. In addition to the achievements in the HSSE field and the Excellence in Performance activities.

I would like, on behalf of myself and my colleagues in the Company's executive branch, to express my sincere thanks and appreciation to all the KGOC employees in variety positions for their dedication and enthusiasm which had contributed to a great extent of achieving the Company's objectives.

It is my pleasure to thank the Chairman and all Board Members for their valuable efforts. As well as their contributions and effective role in achieving the Company's objectives and strategy, in addition to their considerable cooperation, recommendations, and proposals for the development of work's methods and procedures.

It is always my pleasure to extend our gratitude and being recognized to HE the Minister of Oil & Minister of Higher Education, and KPC's Board of Directors, upon their trust which we are proud of and their absolute faith in our capability in fostering the Company's value and our contribution to the national income, in which I take this opportunity to confirm our commitment to continue our effort to achieve their expectations along with the Company's objectives.

To conclude, I would like to extend my gratitude and thanks to HH the Amir Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, HH the Crown Prince Sheikh Meshal Al-Ahmad Al-Jaber Al-Sabah, and HH the Prime Minister Sheikh Sabah Al-Khalid Al-Hamad Al-Sabah, asking Allah Almighty to provide them with success and right oneness, to move forward with our dear homeland on the path of progress and prosperity.

Emad M. Sultan
Ag. Chief Executive Officer

Our Mission &
Vision

OUR VISION & MISSION

Our Mission :

- To explore, develop and produce hydrocarbons in the Divided Zone.
- To be a secure and reliable supplier to our customers, promote the care and development of our people.
- To deliver on our commitments to our stakeholders in a compliant, profitable, safe and environmentally responsible manner.

Our Vision :

To achieve a leading global position in Upstream Oil & Gas as an integrated, value-driven enterprise, by:

- Maximizing the strategic value from oil.
- Realizing the potential of gas.
- Growing reserves for a sustainable future.
- Being an employer of choice.
- Realizing the value from technology.
- Strengthening our commitment to HSSE.
- Striving for excellence in performance.
- Contributing to the Enterprise and State.

The Company's Achievements



This report reviews the most important efforts and achievements regarding the Maximizing the Strategic Value of Crude Oil, the Optimal Utilization of the Potential Value of Gas, and the Development of Oil Reserves to Ensure the Productions Sustainability. In addition to the achievements in the HSSE field and the Excellence in Performance activities.

1. Maximizing the Strategic Value of Crude Oil:

- 1.1 Completed the selection of seismic survey designer (Expert) for the New 3D Seismic Survey Project for the entire area of KJO.
- 1.2 Implemented a subsurface survey plan for an accurate understanding of reservoirs' properties that assist in improving the production of WJO area.

2. The Optimal Utilization of the Potential Value of Gas:

- 2.1 Achieved 100% of the Associated Gas Project in Al-Hout (Rattawi limestone layers in Khafji), in which 98.9% of the approved budget value for the project has been disbursed.
- 2.2 Achieved 98% of the project of constructing a new gas pipeline from KJO to KNPC's Mina Al-Ahmadi Refinery, in which 65% of the approved budget value for the project has been disbursed.

- 2.3 Operated and maintained the Company's gas and natural gas liquids export facilities through KJO, while the purchase agreement budget regarding the export of KJO's gas and natural gas liquids is in progress among the stakeholders.

- 2.4 Identified the KPC Board of Directors approval for Dorra Field Option-4A- Development Project "Non-interlaced offshore division with offshore measurement and direct supply to stations."

- 2.5 Implemented a full water test on the 18-inch gas pipeline from WJO to KOC along with reappraisal of the pipeline's maximum operating pressure with the potential to increase the amount of gas supply to KOC.

- 2.6 Supplied KOC with a quantity of WJO's gas on a pilot basis prior to resuming gas shipment between the two parties.

3. The Development of Oil Reserves to Ensure the Productions Sustainability:

- 3.1 Repaired 20 operational wells, exceeding the placed plan (16 wells), in the KJO area.

- 3.2 Reached an initial agreement to drill more than 1500 oil wells in newly identified expansion areas in WJO, which will assist in utilizing reserves and resources optimally and in a planned manner to create a more robust and practical business plan for the Company.



- 3.3 Achieved an overall increase of 101% in the light and heavy oil reservoirs development area of WJO. In addition to delineating new boundaries for three reservoirs: Wafra - Hartha, South Fuwaris – Hartha, and South Fuwaris - Maastrichtian. This increase in the development area will add significant hydrocarbon reserves to the Company.
- 3.4 Implemented the subsurface monitoring plan in coordination with WJO as part of achieving the fundamental objective, namely, gaining an overall understanding of reservoir standards which helps asset teams to improve and promote production by adjusting production and injection strategies. Moreover, the monitoring campaign included monitoring the changes inside the well to ensure the wells' integrity for safe production that maximizes oil recovery from available reserves.
- 3.5 Collected, arranged, and organized the WJO database, including reports on drilling and wells log, rock sections, crude oil properties, well testing and identifying completed ones, in addition to placing layouts for more than 1000 wells, in order to facilitate updating them, and provide a solid basis for any future study.
- 3.6 Initiated a long-term plan in WJO to monitor the pressure of Ratawi Reservoir (Water Injection and Reservoirs Management).

4. Health, Safety, Security and Environment (HSSE):

- 4.1 Organized an awareness lecture for the employees about the Occupational Health Department of the Ministry of Health.
- 4.2 Organized Group Medical Insurance Registration Campaign, and developed the New Group Medical Insurance Registration Scheme through MOZON program via the Company's website, and the smartphone App.
- 4.3 Issued a quarterly insurance e-magazine, and conducted Online Insurance Awareness along with mandatory test about it for all staff.
- 4.4 Introduced and implemented New Driving Safety Procedure through online E-Learning awareness sessions from house, included extensive participation, interactions and knowledge checks by all the Company's employees and contractors.
- 4.5 Issued a new guidebook for the Company's employees and contractors to limit the risks of the COVID-19 pandemic.
- 4.6 Conducted emergency drills on how to deal with the COVID-19 cases at the HO & WJO to ensure that all staff have plentiful opportunities to promote the competencies and precautionary measures they need to

The Company's Achievements



boost health outcomes and reduce risks due to the COVID-19 pandemic.

- 4.7 Participated in the KNPC's Webinar on Enterprise Risk Management discussions, solutions and best practices by the Risk Cell and lessons learned after the Coronavirus pandemic.
- 4.8 Conducted training courses to raise awareness regarding the role of employees in implementing and identifying requirements, and reporting after returning to the workplace.
- 4.9 Launched the HSE Observation Audits Refresher Program "Trained Eye" in order to raise awareness of HSE among KGOC's employees.

5. The Excellence in Performance:

- 5.1 Implemented IFRS 16 for the International Labor Organization contracts.
- 5.2 Thankfully, there have been no deaths or Lost Time Incidents during the year.
- 5.3 Concluded the Company's first virtual certification course, which resulted in the accreditation of 8 Kuwaiti employees to the IADC Well Sharp certification, a mandatory requirement for all drilling rig supervisors.
- 5.4 Held an in-house training program for the

staff to provide them with modern technical skills to keep up with the oil industry developments regarding drilling, industrial lifting, simulation, and others.

- 5.5 In an effort to improve performance efficiency, all quality assurance procedures have been restructured to be more organized, as Lean Six Sigma methods have been applied by placing a special procedure for this system within the Company.
- 5.6 Prepared a Precautionary Measures Guidebook for the Prevention of Coronavirus, along with an integrated mechanism to be followed in case the preventive measures from COVID-19 are not adhered to. A department for sterilization with a trained staff was established within the Company.
- 5.7 Out of our concern to follow up all the reports and observations of regulators, we obtained an advanced position (95%) among Associates, regarding the efforts made to settle and close the observations included in the State Audit Bureau reports.
- 5.8 Conducted legal reviews of the impact of the COVID-19 pandemic on the Company's existing contracts, and placed a perception of lessons learned, to avoid any possible gaps in the Company's future contracts.




الشركة الكويتية لنفط الخليج (ش.م.ك.)
KUWAIT GULF OIL COMPANY (K.S.C)
إحدى شركات مؤسسة البترول الكويتية
A Subsidiary of Kuwait Petroleum Corporation

The State of Kuwait

**Annual Financial Statements and
Independent Auditor's Report**

31 December 2020

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT GULF OIL COMPANY K.S.C.C., STATE OF KUWAIT

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Gulf Oil Company K.S.C.C. ("the Company") and its subsidiary ("together referred to as the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of expenses, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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


Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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



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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of accounts have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit; and that the consolidated financial statements incorporate all the information that is required by Companies Law No. 1 of 2016, and its executive regulations, as amended; and by the Company's Memorandum of Incorporation and Articles of Association, as amended; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, and its executive regulations, as amended; or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2020 that might have had a material effect on the business of the Company or on its consolidated financial position.



Bader A. Al-Wazzan

Licence No. 62A . Deloitte & Touche
Al-Wazzan & Co. , Kuwait, 16 March 2021

Consolidated Statement of Financial Position as of 31 December 2020


All amounts are in K.D

	Note	2020	2019
ASSETS			
Non-current assets			
Property, plant and equipment			
Tangible	3	1,046,520	1,090,219
Intangible	4	35,070	41,000
Right-of-use assets	5	85,792	17,135
Accounts receivable and prepayments	6	5,656	5,797
Loans to employees	7	6,693	6,281
		<u>1,179,731</u>	<u>1,160,432</u>
Current assets			
Inventories	8	17,513	21,667
Deferred cost	9	17,984	-
Accounts receivable and prepayments	6	9,516	10,516
Loans to employees	7	3,632	3,252
Term deposits	10	4,552	2,934
Cash and bank balances	11	4,890	4,699
		<u>58,087</u>	<u>43,068</u>
Total assets		<u>1,237,818</u>	<u>1,203,500</u>
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	12	120,000	120,000
Foreign currency translation reserve		48,539	48,314
Remeasurement of defined benefit obligation		(27,235)	(28,354)
		<u>141,304</u>	<u>139,960</u>
Non current liabilities			
Due to the Ultimate Parent	13	675,671	703,321
Employees' provident fund	14	13,601	11,803
Post employment benefits	15	178,742	165,783
Lease liabilities	16	67,044	11,334
		<u>935,058</u>	<u>892,241</u>
Current liabilities			
Accounts payable and other liabilities	17	143,422	166,651
Lease liabilities	16	18,034	4,648
		<u>161,456</u>	<u>171,299</u>
Total shareholder's equity and liabilities		<u>1,237,818</u>	<u>1,203,500</u>

The attached notes are an integral part of these consolidated financial statements.



Fuad Al-Abbasi
Chairman of the Board



Emad Sultan
Acting Chief Executive Officer

Consolidated Statement of Expenses – Year ended 31 December 2020

All amounts are in K.D

	Note	2020	2019
Operating expenses	18	183,250	200,303
General and administration expenses	19	29,367	30,408
Depreciation and amortization	3,4 & 5	94,714	90,173
Interest on lease liabilities	16	1,354	510
Directors' remuneration	20	56	58
Interest income		(8)	(46)
Gross Expenses		308,733	321,406
Deferred cost	9	(17,984)	-
Net Expenses		290,749	321,406
Costs reimbursable by the Ultimate Parent	13	(290,749)	(321,406)
		-	-

The attached notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income – Year ended 31 Dec. 2020

All amounts are in K.D

	2020	2019
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit obligation	<u>1,119</u>	<u>(10,976)</u>
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustment	<u>225</u>	<u>(1,141)</u>
Total comprehensive income/(expense) for the year	<u>1,344</u>	<u>(12,117)</u>

The attached notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity – Year ended 31 Dec. 2020

All amounts are in K.D

	Share capital	Foreign currency translation reserve	Remeasurement of defined benefit obligation	Total
Balance at 31 December 2019	120,000	48,314	(28,354)	139,960
Total comprehensive income for the year		225	1,119	1,344
Balance at 31 December 2020	120,000	48,539	(27,235)	141,304
Balance at 31 December 2018	120,000	49,455	(17,378)	152,077
Total comprehensive expenses for the year	-	(1,141)	(10,976)	(12,117)
Balance at 31 December 2019	120,000	48,314	(28,354)	139,960

The attached notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows – Year ended 31 December 2020

All amounts are in K.D

	Note	2020	2019
Cash flows from operating activities			
Net expenses for the year		(290,749)	(321,406)
Adjustments for:			
Depreciation and amortization	3, 4 & 5	94,714	90,173
Property, plant and equipment written off	3	1,104	603
Construction in progress written off	3	138	-
Provision for inventory obsolescence		(718)	(311)
Provision for employees' end of service benefits		18,169	15,425
Provision for provident funds		1,209	1,114
Interest on lease liabilities	16	1,354	510
Operating expenditure before working capital changes		(174,779)	(213,892)
Accounts receivable and prepayments		1,141	7,863
Loans to employees		(792)	505
Inventories		4,872	1,179
Deferred cost		(17,984)	
Accounts payable and other liabilities		(13,380)	25,307
Cash used in operations		(200,922)	(179,038)
Employees' end of service benefits paid		(4,175)	(8,396)
Provident fund deposits/(withdrawals)		589	(196)
Net cash used in operating activities		(204,508)	(187,630)
Cash flows from investing activities			
Purchase of property, plant and equipment - tangible	3	(34,892)	(54,706)
Accrued capital expenditure		(9,849)	788
Payment for intangible assets		-	(1,418)
Term deposits		(1,618)	(1,696)
Net cash used in investing activities		(46,359)	(57,032)
Cash flows from financing activities			
Lease liabilities paid	16	(10,707)	(4,646)
Funds received from the Ultimate parent	13	263,099	247,660
Net Cash generated from financing activities		252,392	243,014
Net increase/ (decrease) in cash and cash equivalents		1,525	(1,648)
Effect of foreign exchange rate changes		(1,334)	(405)
Cash and cash equivalents - at beginning of year		4,699	6,752
Cash and cash equivalents - at end of year		4,890	4,699

The attached notes are an integral part of these consolidated financial statements.

All amounts are in K.D

1. Constitution and principal activities

Kuwait Gulf Oil Company K.S.C.C. (“the Company” or “the Parent Company”) is a Kuwaiti Closed Shareholding Company incorporated in the State of Kuwait on 10 February 2002. The Company is a wholly owned subsidiary of Kuwait Petroleum Corporation, (“the Ultimate Parent”). The Ultimate Parent is wholly owned by the Government of the State of Kuwait.

The Parent Company’s objectives are exploration, drilling, development of oil fields, transportation and treatment of oil and gas, management of oil refineries, marketing and selling oil and gas in accordance with the Divided Zone agreement.

The Parent Company owns 100% shares of Kuwait Petroleum Corporation (Western Hemisphere) – K.S.C (Closed). Accordingly, Kuwait Petroleum Corporation (Western Hemisphere) – K.S.C (Closed) is a subsidiary of the Parent Company. The main activity of the subsidiary is purchasing products from Kuwait National Petroleum Company and marketing them in the Western Hemisphere, West and East Coasts of United States of America.

The Company is a participant in two joint operations for exploration, drilling and production of oil and gas:

- Khafji Joint Operations (KJO)
- Wafra Joint Operations (WJO)

Khafji Joint Operations (KJO)

On 4 January 2003, the Parent Company and Aramco Gulf Oil Company (AGOC) (collectively referred to as Khafji Joint Participants) signed a Memorandum of Understanding to operate KJO in the offshore areas adjacent to the partitioned zone between the State of Kuwait and the Kingdom of Saudi Arabia under the Joint Petroleum Production Operations Agreement (JPPOA) for petroleum production operations on a 50% share basis. The JPPOA was initially signed between AGOC and Arabian Oil Company Limited (AOC) pursuant to the 2000 treaty signed by the State of Kuwait and the Kingdom of Saudi Arabia. AOC had a concession agreement with the Kuwait Government and after its expiry in January 2003, the Parent Company signed a Memorandum of Understanding with AGOC to extend the current concession agreement until 31 March 2010 where by the concession continued to operate under the previous JPPOA. A new perpetual agreement “Khafji Joint Operations Agreement” was signed on 3 March 2010.

The new perpetual Khafji Joint Operations Agreement provides that the Parent Company and AGOC will equally share responsibility for the KJO and that the operating costs, including capital expenditure, which relate directly to conduct the operations will be shared equally by the Khafji Joint Participants.

Wafra Joint Operations (WJO)

In accordance with Kuwaiti Ministry of Energy resolution No. 2/2005, Kuwait Government’s interest in the onshore petroleum production operations at the Divided Zone between the State of Kuwait and the Kingdom of Saudi Arabia was transferred from Kuwait Oil Company to the Company with effect from 1 January 2006. Accordingly, the Company is a 50% partner in the onshore petroleum production operations at the Divided Zone along with Saudi Arabian Chevron Company representing the Kingdom of Saudi Arabia (collectively referred to as Wafra Joint Participants)

These consolidated financial statements comprise the Parent Company, its subsidiary and 50% interest in the KJO and WJO. The Parent Company and the subsidiary are together referred to as “the Group”.

The address of the Parent Company’s registered office is P.O. Box 9919 – Ahmadi, 61010, State of Kuwait.

These consolidated financial statements were authorized for issue by the Board of Directors on 16 March 2021 and are subject to approval of the Shareholder at the Ordinary General Assembly.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) under the historical cost basis of measurement.

KJO had shut down crude oil production facilities with effect from 16 October 2014. Subsequently, crude oil production at WJO was stopped effective from 11 May 2015 to carry out maintenance activities. However, in December 2019 the State of Kuwait and the Kingdom of Saudi Arabia signed a Memorandum of Understanding on procedures to restart the production at KJO and WJO. The crude oil production at KJO and WJO was resumed in February 2020 and in July 2020 respectively. Furthermore, Dorra offshore gas field development continues to be on hold as at 31 December 2020 pending instructions from Khafji Joint participants

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 Khafji and Wafra Joint Participants have been funding the activities based on cash calls. KJO has approved its budget for 2021 and the Parent Company believes that WJO will also approve its budget for 2021. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

These consolidated financial statements have been prepared using the management accounts of KJO as of 31 December 2020, pending issue of their audited financial statements as of that date. The Group believes that no material changes are likely to arise on issue of the audited financial statements of KJO for the year ended 31 December 2020.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 27.

Changes in accounting policies

New standards and amendments effective from 1 January 2020

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year. In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued that are effective for annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements:

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

Amendments to IAS 1 and IAS 8: Definition of Material

The IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose consolidated financial statements make on the basis of those

consolidated financial statements, which provide financial information about a specific reporting entity.

Amendments to IFRS 16 COVID-19 Related Rent Concessions

The amendment to IFRS 16 COVID-19-Related Rent Concessions provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

Other amendments which are applicable for annual period ended 31 December 2020 do not have any impact on the consolidated financial statement of the Group.

Standards and revisions issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect the presentation of liabilities as current or non-current in the consolidated statement of financial position but not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in consolidated statement of expenses. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the consolidated statement of expenses, the consolidated financial statements shall disclose the amounts of proceeds and cost included in consolidated statement of expenses that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the consolidated statement of expenses include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the consolidated financial statements in which the entity first applies the amendments.

The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented. The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Adoption of other new or amended Standards are not expected to have a material effect on the financial position or financial performance of the Group. Additional disclosures will be made in the consolidated financial statements when these standards become effective.

2.2 Financial Instruments

Recognition and derecognition

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument.

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in the consolidated statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the marketplace.

A financial asset (in whole or in part) is de-recognised when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset. A financial liability is derecognized when the Group's obligation specified in the contract is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability.

All financial assets are initially measured at fair value. Transaction costs are added to the cost of all financial instruments except for financial assets classified as at fair value through profit or loss. Transaction costs on financial assets classified as at fair value through profit or loss are recognised in the consolidated statement of expenses.

Classification of financial assets and financial liabilities

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial Assets

Classification

Financial assets are to be assessed based on a combination of the entity's business model for managing the assets and the instrument's contractual cash flow characteristics. Based on such assessment the Group classifies its financial assets carried at amortised cost.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of the Group's financial assets are at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated statement of comprehensive income. Impairment losses are charged to the consolidated statement of expenses.

All amounts are in K.D

Impairment

The Group assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group applies a simplified approach where expected lifetime losses are recognised from initial recognition of the receivables.

Financial Liabilities

Classification

Financial liabilities are classified at initial recognition as financial liabilities “other than at fair value through profit or loss”.

Measurement

All financial liabilities are recognised at the time when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

Fair Values

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, i.e. an exit price. The fair value measurement assumes 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 by 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.

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

All assets and liabilities for which fair values are measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The fair value of financial instruments other than short term financial instruments carried at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

2.3 Joint Operations

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

When the Group undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities and expenses.

When the Parent Company transacts with a joint operation in which a Parent Company is a joint operator (such as sale or contribution of assets), the Parent Company is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transaction are recognised in the Parent Company's consolidated financial statements only to the extent of other parties' interest in the joint operation.

When the Parent Company transacts with a joint operation in which a Parent Company is a joint operator (such as purchase of assets), the Parent Company does not recognise its share of the gains and losses until it resells those assets to a third party.

2.4 Property, plant and equipment

Drilling and exploration (Wells)

Drilling and exploration comprising costs of drilling wells are accounted for under the "successful efforts" method of accounting. Under this method such costs are capitalized unless determined to be abortive, in which case the costs are expensed in the period when such determination is made. Costs are considered abortive when they relate to wells, which are permanently abandoned due to the absence of commercially exploitable reserves of petroleum or temporarily abandoned with no plans for re-entry in the foreseeable future. These are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Other plant and equipment

Other plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost comprises all expenditure incurred to bring the asset to working condition for its intended use. Expenditure incurred in the course of construction of property and equipment is stated at cost.

Depreciation

Depreciation is provided on a straight-line basis over their estimated useful lives as follows:

	<u>Years</u>
Buildings	25
Structures	20 – 25
Wells	10 – 20
Pipelines, equipment and machinery	5 – 25
Furniture and tools	10
Ships and vehicles	5 – 12
Computer and communication equipment	5 – 10

All amounts are in K.D

2.5 Intangible assets

Seismic survey costs and other similar and related costs are considered to be identifiable non-monetary assets from which future economic benefits will flow and are accordingly recognized as an intangible asset. These are stated at cost less accumulated amortization and are amortized over 10 years on a straight line basis.

2.6 Impairment of non-financial assets

If there is an indication that the carrying value of non-financial assets such as property and equipment, right-of-use assets or intangible assets with a definite useful life is greater than its recoverable amount, it is tested for impairment and the asset is written down to its recoverable amount.

Property and equipment and right-of-use assets are reviewed at each consolidated statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, an impairment loss is recognized in the consolidated statement of comprehensive income being the difference between the carrying value and the assets' recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income.

The carrying amount of each intangible asset is reviewed annually. When there is an indication that an intangible asset may be impaired, it is written down to its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.7 Inventories

Inventories are valued at weighted average cost less an estimated provision for obsolete or slow-moving items. Cost includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition.

2.8 Deferred cost

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

2.9 Cash and cash equivalents

Cash on hand, call and current account bank balances and short term time deposits whose maturities do not exceed a period of three months from acquisition date are classified as cash and cash equivalents in the consolidated statement of cash flows.

2.10 Employees provident fund

KJO has three schemes for employees' savings and investment purposes. Two of the schemes, 'Savings and Investment' are funded by employees' contributions, which are deducted from salaries on a monthly basis. The third scheme, 'Reward' is funded by KJO and is based on the employees' period of service and the amount saved or invested in the other schemes. The 'Reward' scheme is non-contributory for the employees and is recognized as an expense for the year.

2.11 Post-employment benefits

The Parent Company and each of the Joint Operations operate a number of defined benefit termination schemes. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period in accordance with the laws of Kuwait or Saudi Arabia as applicable to each employee. The expected costs of these benefits are accrued over the period of employment.

Kuwaiti employees of the Parent Company are entitled to pension and other social benefits, which are covered by the Public Institution for Social Security Scheme, to which employees and employers con-

tribute monthly on a fixed-percentage-of salaries basis. The Parent Company's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard (IAS) 19 – Employee Benefits is recognized as an expense for the year.

This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the consolidated statement of financial position date and approximates the present value of the final obligation or is calculated by independent actuaries using the projected unit credit method. Actuarial gains and losses are recognized in other comprehensive income. The entitlement to this benefit is based on the employees' accumulated periods of service and latest entitlements of salary and allowances.

2.12 Foreign currencies

The consolidated financial statements are presented in Kuwaiti Dinars, which is the Parent Company's functional and presentation currency and also the functional currency of one of the joint operations. The functional currency of the other joint operation is the US Dollar.

Foreign currency transactions are translated into Kuwaiti Dinars at the rates prevailing on the transaction date. Monetary assets and liabilities are translated into Kuwaiti Dinars at the rate of exchange ruling at the consolidated statement of financial position date. Resultant gains/ losses are taken to the consolidated statement of income.

The results and financial position of KJO, whose functional currency is the US Dollars are translated into Kuwaiti Dinars at the year end closing rate for assets and liabilities and at average rate for income and expenses. The resulting exchange difference is recognized through consolidated statement of comprehensive income as a separate component of equity.

2.13 Provisions for liabilities

Provisions are recognized, when as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Provisions are measured at the present value of expenditures expected to be required to settle the obligation. The increase/ decrease in provision is recognised in the consolidated statement of income.

2.14 Interest Income

Interest income is recognised using the effective yield method.

Leases

The Group as a lessee

At the inception of the contract, the Group assesses whether a contract is or contains a lease. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient for the aircraft lease.

On that date, the Group measures the right-of-use asset at cost, which comprises of:

- the amount of the initial measurement of the lease liability.
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and
- an estimate of costs to be incurred to restoring the underlying asset to the condition required by the terms and conditions of the lease as a consequence of having used the underlying asset during a particular period; this is recognised as part of the cost of the right-of-use asset when the Group in-

All amounts are in K.D

curs the obligation for those costs, which may be at the commencement date or as a consequence of having used the asset during a particular period.

The Group measures the lease liability at the present value of the lease payments that are not paid at that date. On that date, the lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

To determine the incremental borrowing rate, the Group:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held, and
- makes adjustments specific to the lease, for example term, country, currency and security.

Lease payments included in measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Subsequent Measurement

After the commencement date, the Group measures the right-of-use asset at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the shorter of the asset's useful life and the lease term. The Group determines whether a right-of-use asset is impaired and recognizes any impairment loss identified in the consolidated statement of expenses. The depreciation starts at the commencement date of the lease.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in note 2.6.

After the commencement date, interest is accrued on the lease liability and lease payments are reduced to reflect the net lease liability.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Each lease payment is allocated between the liability and the interest. The interest is charged to consolidated statement of expenses over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The constant periodic rate of interest is the discount rate used at the initial measurement of lease liability.

Notes to the Consolidated Financial Statements – 31 December 2020

All amounts are in K.D

3. Property, plant and equipment – Tangible

	Plant	Buildings	Structures	Wells (Non-exploratory)	Wells (exploratory)	Pipelines, equipment & machinery	Furniture & tools	Ships & vehicles	Computer & Comm. equipment	Construction in progress	Total
Cost											
At 1 January 2020	188,178	87,370	123,345	800,087	63,418	796,412	11,011	5,413	23,220	218,302	2,316,756
Additions	-	-	-	-	-	99	72	-	97	34,624	34,892
Transfers	542	15	7,459	1,888	-	61,444	14	7	3,190	(74,559)	-
Transfer to intangible	-	-	-	-	-	-	-	-	-	(602)	(602)
Transfer to Expenditure	-	-	-	-	-	-	-	-	-	(138)	(138)
Write off	-	(52)	(6)	(4,722)	-	(614)	(22)	-	(91)	-	(5,507)
Exchange adjustment	-	125	161	790	116	758	19	10	8	695	2,682
At 31 December 2020	188,720	87,458	130,959	798,043	63,534	858,099	11,094	5,430	26,424	178,322	2,348,083
Accumulated Depreciation											
At 1 January 2020	116,142	40,454	43,833	585,903	37,127	367,986	10,317	4,877	19,898	-	1,226,537
Charge for the year	3,990	3,409	4,804	33,721	3,691	26,722	380	82	1,499	-	78,298
Write off	-	(52)	(6)	(3,781)	-	(454)	(19)	-	(91)	-	(4,403)
Exchange adjustment	-	32	39	413	37	564	20	8	18	-	1,131
At 31 December 2020	120,132	43,843	48,670	616,256	40,855	394,818	10,698	4,967	21,324	-	1,301,563
Net book value											
At 31 December 2020	68,588	43,615	82,289	181,787	22,679	463,281	396	463	5,100	178,322	1,046,520
At 31 December 2019	72,036	46,916	79,512	214,184	26,291	428,426	694	536	3,322	218,302	1,090,219

3. Property, plant and equipment – Tangible (continued)

	Plant	Buildings	Structures	Wells (Non-exploratory)	Wells (exploratory)	Pipelines, equipment & machinery	Furniture & tools	Ships & vehicles	Computer & Comm. equipment	Construction in progress	Total
Cost											
At 1 January 2018	187,314	87,601	122,134	800,674	63,524	794,405	11,029	5,414	24,121	171,218	2,267,434
Additions	-	-	6	-	-	23	107	3	-	54,567	54,706
Transfers	864	6	1,433	290	-	4,483	8	6	18	(7,108)	-
Transfer to intangible	-	-	-	-	-	-	-	-	-	(80)	(80)
Disposals/ write off	-	(124)	(25)	(181)	-	(1,345)	(116)	-	(886)	(49)	(2,726)
Exchange adjustment	-	(113)	(203)	(696)	(106)	(1,154)	(17)	(10)	(33)	(246)	(2,578)
At 31 December 2019	188,178	87,370	123,345	800,087	63,418	796,412	11,011	5,413	23,220	218,302	2,316,756
Accumulated Depreciation											
At 1 January 2019	112,103	37,367	39,455	548,628	33,534	346,867	10,642	4,745	18,525	-	1,151,866
Charge for the year	4,039	3,329	4,476	36,146	3,661	24,793	450	141	1,559	-	78,594
Disposals/ write off	-	(120)	(24)	(176)	-	(804)	(116)	-	(883)	-	(2,123)
Exchange adjustment	-	(122)	(74)	1,305	(68)	(2,870)	(659)	(9)	697	-	(1,800)
At 31 December 2019	116,142	40,454	43,833	585,903	37,127	367,986	10,317	4,877	19,898	-	1,226,537
Net book value											
At 31 December 2019	72,036	46,916	79,512	214,184	26,291	428,426	694	536	3,322	218,302	1,090,219
At 31 December 2018	75,211	50,234	82,679	252,046	29,990	447,538	387	669	5,596	171,218	1,115,568

4. Property, plant and equipment - Intangible

	<u>Seismic surveys</u>	<u>Others</u>	<u>Total</u>
Cost			
At 1 January 2019	60,482	20,725	81,207
Additions	1,418	-	1,418
Transfer from construction in progress	-	80	80
Exchange adjustment	(29)	(11)	(40)
At 31 December 2019	61,871	20,794	82,665
Transfer from construction in progress	-	602	602
Exchange adjustment	258	14	272
At 31 December 2020	62,129	21,410	83,539
Accumulated amortization			
At 1 January 2019	22,538	12,712	35,250
Amortized during the year	4,734	1,715	6,449
Exchange adjustment	(24)	(10)	(34)
At 31 December 2019	27,248	14,417	41,665
Amortized during the year	4,803	1,747	6,550
Exchange adjustment	244	10	254
At 31 December 2020	32,295	16,174	48,469
Net book value			
At 31 December 2020	29,834	5,236	35,070
At 31 December 2019	34,623	6,377	41,000

5. Right-of-use assets

These are assets that represent the Group's right to use an underlying asset for the lease term.

The Group's leasing activities

The Group has leases in respect of machinery and equipment, marine vessels, vehicles, furniture and tools, computer and communication and aircraft. Rental contracts are typically made for fixed periods of 1 to 10 years but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Low-value assets comprise IT equipment and small items of office furniture.

Extension and termination options are included in a most of the leases. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension options held are exercisable only by mutual agreement of the Group and the respective lessor.

Notes to the Consolidated Financial Statements – 31 December 2020

All amounts are in K.D

The movement of balance related to the recognized right-of-use assets is as follows:

	Machinery and equipment	Marine vessels	Vehicles	Furniture and tools	Computer & Communication	Air-craft	Total
Balance as of 1 January 2020	232	7,460	2,042	730	2	6,669	17,135
Add: Additions	59,765	8,500	10,270	-	-	-	78,535
Less: Amortization	(1,128)	(5,345)	(2,594)	(156)	(1)	(642)	(9,866)
Exchange adjustment	-	(14)	(18)	2	-	18	(12)
Closing balance as at 31 December 2020	<u>58,869</u>	<u>10,601</u>	<u>9,700</u>	<u>576</u>	<u>1</u>	<u>6,045</u>	<u>85,792</u>
Balance as of 1 January 2019	31	9,091	2,521	464	-	-	12,107
Add: Additions	247	1,548	1,090	404	3	6,894	10,186
Less: Amortisation	(46)	(3,167)	(1,566)	(138)	(1)	(212)	(5,130)
Exchange adjustment	-	(12)	(3)	-	-	(13)	(28)
Closing balance as at 31 December 2019	<u>232</u>	<u>7,460</u>	<u>2,042</u>	<u>730</u>	<u>2</u>	<u>6,669</u>	<u>17,135</u>

	2020	2019
Expense relating to short-term leases (included in operating expenditure)	<u>3,102</u>	<u>6,195</u>
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in operating expenditure)	<u>104,678</u>	<u>104,877</u>

6. Accounts receivable and prepayments

	2020	2019
Non-current		
Prepayments	<u>5,656</u>	<u>5,797</u>
Current		
Accounts receivable	3,381	1,488
Prepayments	<u>6,135</u>	<u>9,028</u>
	<u>9,516</u>	<u>10,516</u>
	<u>15,172</u>	<u>16,313</u>

Accounts receivable represents KD 3,006 thousand due from the joint operation participant (2019: KD 2,418 thousand).

Accounts receivable and prepayments include KD 10,346 thousand denominated in US Dollars (31 December 2019: KD 22,212 thousand).

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7. Loans to employees

	2020	2019
Non-current	6,693	6,281
Current	3,632	3,252
	<u>10,325</u>	<u>9,533</u>

Loans to employee consist of interest free home loans and other loans extended to employees of the joint operation and the Group. Home loans amounting to KD 7,446 thousand (2019: KD 7,142 thousand) are secured on the property for which the loan is granted. These are repaid over a maximum period of 15 years from the last draw down date and monthly repayments are 20% of the employee's basic salary.

Of the above, KD 7,935 thousand is due in US Dollars (31 December 2019: KD 7,414 thousand).

8. Inventories

	2020	2019
Materials and supplies	27,824	32,696
Provision for obsolete and slow-moving items	(10,311)	(11,029)
	<u>17,513</u>	<u>21,667</u>

9. Deferred cost

This represents value of oil extracted but not transferred to the Ultimate Parent as on the closing date.

10. Term deposits

These are held with an Islamic bank in the State of Kuwait in respect of investment scheme and saving scheme balances of KJO employees (Note 14). The effective interest rate on investment scheme deposit is 3.13% (2019: 3.13%) and saving scheme deposit is 1.55% (2019: 3.13%).

11. Cash and bank balances

Cash at banks includes KD 0.62 million (2019: KD 1.47) earmarked for employees share of funding related to employee saving scheme at KJO as disclosed in Note 14.

12. Share capital

The share capital of the Company comprises of 120,000,000 authorized, issued and fully paid up shares of KD 1 each (31 December 2019: 120,000,000 shares of KD 1 each).

13. Due to the Ultimate Parent

	2020	2019
Balance at 1 January	703,321	777,067
Funds received during the year	263,099	247,660
Costs reimbursable by the Ultimate Parent	(290,749)	(321,406)
Balance at 31 December	<u>675,671</u>	<u>703,321</u>

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The balance as at 31 December represents funds received from the Ultimate Parent for capital expenditure which is not repayable within one year.

14. Employees' provident fund

	2020	2019
Savings scheme	5,020	4,320
Investment scheme	1,662	1,424
Reward scheme	6,919	6,059
	<u>13,601</u>	<u>11,803</u>

The investment scheme is funded by term deposits and saving scheme is funded by term deposit and cash at bank (refer Note 10 and 11). The reward scheme is funded by KJO and expense for this scheme is charged to expense for the year.

15. Post-employment benefits

	2020				2019
	Regular	Special	Early/others	Total	Total
At 1 January	150,453	14,088	1,242	165,783	147,827
Exchange adjustment	65	18	1	84	(94)
Net movements during the year	12,920	900	174	13,994	7,029
Actuarial valuation loss	(873)	(246)	-	(1,119)	11,021
At 31 December	<u>162,565</u>	<u>14,760</u>	<u>1,417</u>	<u>178,742</u>	<u>165,783</u>

The Group provides several non-contributory defined benefit termination plans covering substantially all employees of the Company and joint operations. These post-employment liabilities are wholly unfunded. The principal schemes are:

- Regular termination benefit scheme is based on years of service and last salary before termination of employment.
- Special termination benefit scheme, which is only applicable to Saudi and Kuwaiti national employees who have contributed for the required minimum period in either the General Organization for Social Insurance ("GOSI") or Public Institution for Social Security ("PISS"). Employees must have fulfilled the minimum requirement of the eligibility for a monthly annuity in accordance with current regulations, or have reached 50 years of age (Hijra calendar) and have served more than 15 years with the Joint Operations and is based on the last basic salary before termination and factors of service as determined in the provisions of the scheme.
- Early termination benefit schemes, which are paid to employees who contributed for a required minimum period in either GOSI or PISS, who took voluntary retirement based on the Joint Operations and government rules for such early retirements. In addition, the Joint Operations makes payments to employees taking early retirement.

Notes to the Consolidated Financial Statements – 31 December 2020

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The above employees' post-employment benefits has been assessed using the following principal actuarial assumptions:

	2020	2019
Discount rate	2.50%	3.00%
Expected rate of salary increase	5.50%	6.00%

There were no significant changes in the average longevity at retirement age for the plan participants as compared to the previous year.

16. Lease Liabilities

	2020	2019
Balance as of 1 January	15,982	9,959
Additions	78,535	10,186
Accretion of interest	1,354	510
Payments	(10,707)	(4,646)
Exchange adjustment	(86)	(27)
Closing balance as at 31 December	85,078	15,982
:Of which are		
Current lease liabilities	18,034	4,648
Non-current lease liabilities	67,044	11,334
	85,078	15,982

17. Accounts payable and other liabilities

	2020	2019
Accounts payable	57,778	60,430
Accrued expenses	19,886	17,763
Accrued capital expenditure	40,916	50,764
Provision for litigations and claims	22,951	30,361
Other payables	1,891	7,333
	143,422	166,651

Accrued expenses include KD 3,745 thousand (31 December 2019: KD 1,337 thousand) payable to a related party.

AccountspayableandaccrualsincludeKD20,831thousanddenominatedinUSDollars(31December2019: KD 96,906 thousand).

Notes to the Consolidated Financial Statements – 31 December 2020

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18. Operating expenses

	2020	2019
Staff Cost	111,284	119,800
Repairs & maintenance	18,293	14,754
Technical, drilling & other services	15,683	27,450
Medical cost	13,104	11,759
Fuel & utilities	6,260	2,666
Material consumed	6,159	3,411
Manpower supply cost	6,043	5,984
Information Technology	1,985	1,691
Value Added Tax	-	10,352
Others	4,439	2,436
	<u>183,250</u>	<u>200,303</u>

19. General and administration expenses

	2020	2019
Staff Cost	18,690	15,793
Medical Cost	3,506	5,112
Manpower supply cost	3,082	2,881
Information Technology	2,799	2,831
Others	1,290	3,791
	<u>29,367</u>	<u>30,408</u>

20. Directors' remuneration

Provision made in the consolidated financial statements for Board of Directors' remuneration is subject to the approval of the shareholder.

21. Exploration for and evaluation of oil and natural gas resources

The details of assets engaged in exploration are as follows:

	2020	2019
Exploration Assets		
Tangible assets	22,679	26,291
Construction in progress	41	41
Total exploration assets	<u>22,720</u>	<u>26,332</u>

22. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group has entered into transactions with related parties on terms approved by management. Balances and transactions with related parties not disclosed elsewhere in these consolidated financial statements are as follows:

Expenses for the year include KD 14,704 thousand (2019: KD 16,721 thousand) incurred through related parties for providing administration and other support services.

Nature of Transactions	Relationships	2020	2019
Manpower supply services	The Participants	1,224	1,697
Purchase of diesel	Company affiliated to the Participants	2,388	2,598
Medical and other services	Company affiliated to the Participants	10,133	10,736
Accommodation & other services	Company affiliated to the Participants	959	1,690

Key management compensation

	2020	2019
Salaries and other benefits	651	406
Post-employment benefits	131	59
	<u>782</u>	<u>465</u>

Notes to the Consolidated Financial Statements – 31 December 2020

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23. Interest in the Joint operations

The consolidated financial statements include the following items that represent the Group's interest in the Joint Operations.

Consolidated Statement of financial position	KJO		WJO	
	2020	2019	2020	2019
Assets				
Property, plant and equipment-Tangible	808,369	832,341	217,170	240,696
Property, plant and equipment-Intangible	3,585	4,077	31,485	35,588
Right-of-use assets	21,432	16,585	64,110	-
Loans to employees	7,935	7,414	-	-
Inventories	9,000	11,149	8,513	9,190
Deferred cost	15,812	-	2,172	-
Accounts receivables and prepayments	10,321	11,229	3,005	2,418
Term deposit	4,552	2,934	-	-
Cash and bank balances	2,752	4,088	-	-
	<u>883,758</u>	<u>889,817</u>	<u>326,455</u>	<u>287,892</u>
Liabilities				
Employees' provident fund	13,601	11,803	-	-
Post-employment benefits	110,329	103,929	46,185	42,270
Accounts payable and other liabilities	78,861	104,017	26,214	27,701
Lease liabilities	20,494	4,271	64,320	-
	<u>223,285</u>	<u>224,020</u>	<u>136,719</u>	<u>69,971</u>
Net assets	<u>660,473</u>	<u>665,797</u>	<u>189,736</u>	<u>217,921</u>
Net Expenses for the year	(157,509)	(173,641)	(103,603)	(106,710)
Others				
Proportionate share in joint capital commitments	39,901	8,170	336	-
Proportionate share in other operating commitments	46,603	19,250	438	5,091
	<u>86,504</u>	<u>27,420</u>	<u>774</u>	<u>5,091</u>

24. Fair value of financial instruments

The Group's assets and liabilities include the following financial instruments, acquired in the normal course of business.

Financial assets - at Amortised cost

Accounts receivable
Loans to employees
Term deposit
Cash and bank balances

Financial liabilities - classified as other than at fair value through profit or loss

Accounts payable and other liabilities
Lease liabilities

Fair value measurement

The Group's financial instruments are carried at amortized cost and is based on Level 3 inputs, determined based on discounted cash flow basis. The fair values are not materially different from their carrying values.

25. Risk management

The Group's use of financial instruments exposes it to a variety of financial risks such as credit risk, market risk, liquidity risk and political risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. Risk management is carried out by the finance department under policies approved by the Board of Directors. Financial department identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as credit risk, market risk and liquidity risk.

During the year, the outbreak of COVID-19 pandemic has brought disruptions in business operations of the Group and the economies in which the Group operates. Consistent with its risk management framework, the management has followed prudent steps in minimizing the impact on key risk parameters. Refer note 28 for details.

The significant risks that the Group is exposed to are discussed below:

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist principally of current, call and term deposits, advances to contractors and due from related parties. The Group manages this risk by placing short term bank deposits with high credit rating financial institutions, entering into contracts with selected counter parties of repute, who are approved by the Board of Directors of the Group and by obtaining bank guarantees for performance of the work.

The Group's maximum exposure to credit risk as of the consolidated statement of financial position date is as follows:

	2020	2019
Accounts receivable	3,381	1,488
Loans to employees	10,325	9,533
Term deposits	4,552	2,934
Balances with banks	4,890	4,520
	23,148	18,475

Accounts receivable represents current account balances due from Wafra Joint Participant. Employee loans are secured by the property for which the loan is granted. Balances with banks include current and short term deposits with banks with high credit ratings assigned by reputed external credit rating agencies.

(b) Market risk

Market risk, comprising of foreign currency risk, interest rate risk and equity price risk arises due to movements in foreign currency rates, interest rates and market prices of assets.

(i) Foreign currency risk

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign currency rates. The Group is primarily exposed to foreign currency risk as a result of gains/losses on translation of foreign currency denominated assets and liabilities

All amounts are in K.D

such as accounts receivable and accounts payable. The Group manages this risk by setting limits on exposures to currency and transacting business in major currencies.

If as at 31 December 2020, Kuwaiti Dinars had strengthened by 5% against the US Dollar with all other variables held constant, expenses for the year would have been lower by KD 4 thousand (2019: KD 3 thousand), mainly as a result of foreign exchange gains on translation of US Dollar denominated assets and liabilities.

A 5% weakening in exchange rate would have had the equal but opposite effect on expenses.

(ii) Interest rate risk

Interest rate risk arises from the risk that future cash flows or fair values of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk is not material as at 31 December 2020.

(iii) Equity price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The Group has no financial assets exposed to price risk.

(c) Liquidity Risk

Liquidity risk is the risk that the Group may not be able to meet its funding requirements. Liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group's funding requirements are fully provided by the Ultimate Parent.

All financial liabilities of the Group as of 31 December 2020 mature within 12 months except for due to the Ultimate parent, employees' provident fund, post-employment benefits and lease liabilities. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

26. Capital risk management

The Group is not exposed to capital risk, since the Ultimate Parent is committed to provide all funding requirements of the Group.

27. Significant accounting judgments and estimates

The preparation of consolidated financial statements in conformity with International Financial Reporting standards requires management to make estimates and assumptions that may affect amounts reported in these consolidated financial statements, as actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Judgments and estimates that are significant to the consolidated financial statements are the following:

Impairment of Assets

The Group reviews its financial assets classified as at amortised cost, and other assets like inventory, property, plant and equipment and intangible assets periodically to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Useful lives of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives and related depreciation charge and amortisation for its property, plant and equipment and intangible assets. The estimate is based on product life cycle of its equipment and intangible assets. It could change significantly as a result of change in technology. Management will increase the depreciation charge and amortisation where useful lives are less than previously estimated lives.

Defined benefit plan obligation

The Group and joint operations provides for several non-contributory defined benefit termination plans on behalf of its employees. The present value of these obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions like the discount rate, expected average remaining working life of employees and current market conditions. Any change in these assumptions will impact the carrying amount of the defined benefit plan obligations.

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

For leases of vehicles and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

28. Impact of COVID-19

In response to the spread of the COVID-19 pandemic in the Gulf Cooperation Council where the Group operates and its consequential disruption to the social and economic activities in those markets, the management of the Group has assessed its impacts on its operations and has taken a series of proactive and preventative measures, including activation of a crisis management committee and associated processes to:

- ensure the health and safety of its employees and contractors as well as the wider community where it is operating; and
- minimizing the impact of the pandemic on its operations

Notwithstanding these challenges, and aside from the global commodity price deterioration, both KJO and WJO were successful in maintaining stable operations and the management at KJO and WJO has been instructed to continue with production, drilling, maintenance operations and capital investment activities.

The Group management believes that the COVID-19 pandemic, by itself, has had limited direct material effects on the Group's reported results for the year ended 31 December 2020. The Group management continues to monitor the situation closely.

29. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation with no effect on the previously reported net expenses or equity.