

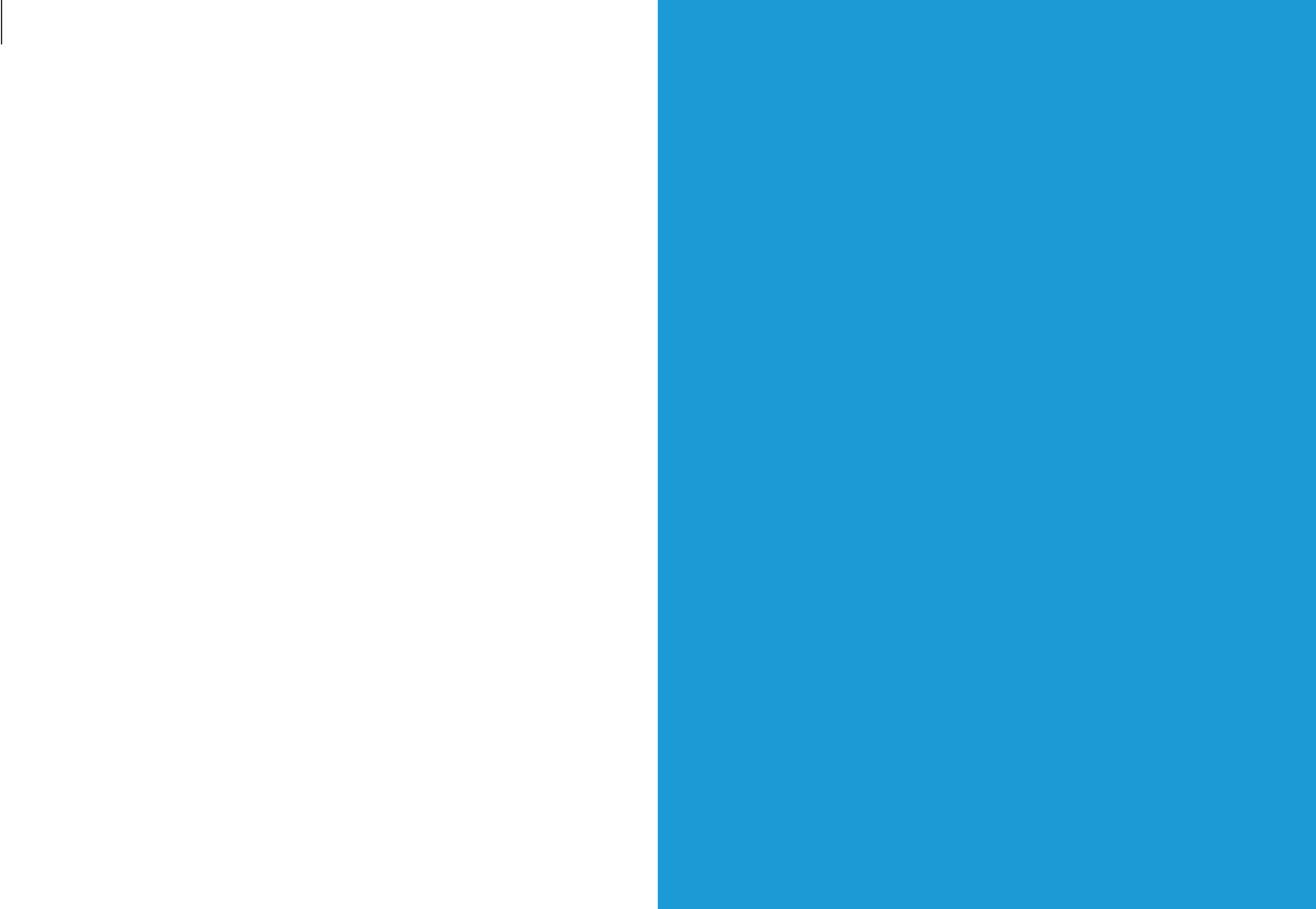


الشركة الكويتية لنفط الخليج (ش.م.ك.)
KUWAIT GULF OIL COMPANY (K.S.C)



**Together
Towards
The Future**

2021 / 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 2021





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



Shk. Nimr Fahad Al Malek Al-Sabah
Board Member



Abdullah Ali Al-Sumaiti
Board Member



Emad Mahmoud Sultan
Board Member



Basim Essa Al-Essa
Board Member



Fuad Mohammad Alsheikh
Board Member



Hassan Ali Bunayyan
Board Member

Executive
Management



Emad Sultan
Acting CEO



Mohammad Abdulhadi Al-Zoubi
Deputy CEO
Technical & Commercial Affairs



Mohammed Salem Al-Haimer
Deputy CEO
Joint Operations



Nayef Abdullah Al-Anezi
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 Al-Khaddah
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 2021.

During the year 2021, KGOC continued to operate its activities and business in the Head Office and Joint Operations area, taking all efforts to ensure that the operational activities are not affected by health conditions. Financial Year 2021 has witnessed a great deal of effort and achievements made by all the directorates and organizational groups in the Company.

The first of the Company's achievements is its success, for the first time, in launching a pipeline to transport the State of Kuwait's share of natural and liquefied gas, estimated at 11 MCF of light gas, 29 MCF of sour gas and 6,000 BPD of liquefied gas, produced from the Partitioned Zone shared with the Kingdom of Saudi Arabia at KJO to the local oil facilities, through a 100 kilometer-long onshore and offshore pipeline between the State of Kuwait and the Kingdom of Saudi Arabia, aimed at utilizing the share in power generation locally.

Thanks to the energetic efforts of the national staff and the accumulated efforts of the previous leaders, who translated the sublime directives of the political leadership into a reality and fruitful cooperation between the two countries.

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

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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 KGOC employees 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.

It is always my pleasure to extend our gratitude to HE the Deputy Prime Minister, Minister of Oil, Minister of State for Cabinet Affairs, and KPC's Board of Directors, upon their trust which we are proud of. Their absolute faith is 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 Meshaal Al-Ahmad Al-Jaber Al-Sabah, and HH the Prime Minister Sheikh Sabah Al-Khaled 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.

Mohammad S. Al-Haimer

Ag. Chief Executive Officer

Our Mission & Vision



◆ 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 the Crude Oil:

- Reached an agreement with the partners in the WJO Area about the joint assessment and identifying the wells list waiting for drilling for the five-year plan 2022-2026.
- Reached an agreement with the partners in the WJO Area in the first phase of the Low-Porosity Carbonate Project. Horizontal inclined drilling of 10 wells will be initiated, in addition to the drilling of 24 new wells over the next five years.
- Completed the study of the Wafra fields development plan in the identified new expansion areas and drilling wells within the current development areas.
- Multiple options for conducting FEED for the 12" Eocene Pipeline Replacement Project have been identified. The most cost-effective option for conducting these studies was initiated through KOC, resulting in a cost saving of KWD1 million.

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

- Khafji New Gas Transit 12" Pipeline from KJO to MAA Refinery and KNPC:
 - Achieved 100% in Khafji Area.
 - Achieved 99.83% of the scope of total work.
 - Achieved 100% of the 4" connection pipeline (KOC scope).
 - Completed the operating work and the start of transporting lean gas from Khafji to Kuwait on

August 2, 2021. Due to the export of the lean gas to Kuwait, the average production of KJO has risen from 100,000 BPD of oil to 160,000 BPD.

- Completed 100% of the construction of a 10-kilometre pipeline. Initial operating activities are also underway.
- Initiated the engineering works and design on October 26, 2021, for the construction of the second phase of connecting the project with the KOC's pipeline.
- Completed 100% of the conversion of Khafji Dry Dock (OTB-14) to the north to protect the KGOC's gas pipelines and exports from drag and drop, and to modernize the pipeline route in Khafji and the navigation canal line in (Navy Forces Bureau Scheme).
- Initiated discussion with the partner about the identification of the proposed alternative for the development of Dorra Offshore Field Project. Accordingly, an integrated team was formed to discuss and develop the final steps to move the project forward.
- Approved the Operation and Maintenance Agreement allowing KOC to operate and maintain LNG export facilities in Kuwait through KGOC.
- Completed the Operation and Maintenance Agreement draft, Annex 1 to the above-mentioned Operation and Maintenance Agreement, which allows the KOC's Marine Department to operate and maintain the KGOC's offshore pipeline within the State of Kuwait's marine borders.
- The partners approved the balanced purchase agreement to resolve the product marketing imbalance of the Khafji New Gas Transit Pipeline from KJO to MAA Refinery and KNPC -Kuwait.
- Developed a draft of the Memorandum of Understanding for the short and long term between



KOC, KGOC, and the Saudi Arabian Chevron (SAC) to export the full surplus gas shares of WJO.

- Based on the preliminary feasibility study conducted to merge the Dorra Project's onshore processing facilities with the KIPIC Refinery- Al-Zour, there is an opportunity to reduce the total potential cost.
- Reached advanced and final stages of signing the Memorandum of Understanding for the short and long-term operating plans for exporting WJO surplus gas. Technical specifications have been coordinated among KGOC, SAC, and KOC for a new pipeline to export sour gas from the operations area to KOC's facilities.
- Developed the Common Lines Team (CLT) Guidebook for the KGOC's Eocene pipeline, in cooperation with KNPC, to ensure the safe operation of the pipeline, with clear and specific roles and responsibilities for the first time since the Eocene pipeline was under the KGOC's control.

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

- Agreement with the partner in Wafra Joint Operations on the extension's areas of the productive reservoirs and laying down plans to develop them with the aim of sustainable production.
- Reaching an agreement with the partner in Wafra Joint Operations regarding the development of strategies related to the new explorations and wells drilling plans for these explorations.
- As part of the effort to improve production, the acid fracturing process of the well SF-56 well was successfully completed (for the first time in WJO).
- Continued to increase production and reduce lost oil (Reducing 10,000 BPD in the third quarter and 30,000 BPD) as an annual average in WJO.

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

- Cleaning and inspecting the Eocene pipelines (16" & 12"): The 12" Eocene pipeline, which had multiple and proven leaks, and for HSE requirements, the remaining crude oil was supposed to be discharged to the Eocene pipeline. However, through cooperation among KOC, KNPC, and the Ministry of Interior, the pipeline inspection process was implemented successfully, as 26,872 barrels of crude oil were discharged (At a cost of USD 1.88 million, USD 70 per barrel) and the pipeline was kept safely under nitrogen pressure.
- An HSSE Master Dashboard was conceived and developed inhouse with the support of IT team. The dashboard reflects important HSSE leading and lagging indicators. There is a provision for data comparison and generation of various reports. An HSSE input master data module was developed as well. The dashboard is a visualization of the all-important HSE KPMs in interactive tables and graphs which includes the following data:

- Lost time injuries.
- Fatalities.
- Oil spills, gas flaring and greenhouse gases.
- Key indicators (HSSE Training, HSSE Audit, Near Miss and Hazards).
- Lagging indicators (MVA's, fires, medical treatments and RWC).

5. The Excellence in Performance:

- Defined and developed the fast-track concept to implement a project within 18 weeks instead of the usual 52 weeks to address the gas flaring law of KEPA, and naming economic benefits as the short-term plan to reduce the rate of gas flaring.
- The financial support protocol between KGOC and the Trade Union was signed.

The Company's Achievements



- Completed 100% of the training and development plan for group managers in the 1st K-Lead Unified Oil Sector Training System.
- Launched the interactive electronic magazine initiative “TCD TIMES” as one of the learning tools for sharing knowledge on topics related to training and career development, and encouraging staff at different career levels to participate in topics that benefit everyone. Four issues were published on a quarterly basis, electronically and at no financial cost to the company.
- Implemented virtual Training & Career Development -Internship Program for 108 students at the College of Technological Studies of the Public Authority for Applied Education and Training and students at the College of Engineering and Petroleum at Kuwait University, using services and remote learning applications via Microsoft Teams program for health and safety precautions.
- Expanded and updated the video library of the “How does it work?” series initiative to include all operations of the Unified Learning Management System (ULMS) and other related procedures. In addition to the programs related to the new training and career development activities, (11) educational and induction electronic visuals of “How does it work?” have been implemented and updated to guide staff using ULMS, and at no financial cost to the company.
- Completed the recruitment of Kuwaiti employees on the WJO’s contracts successfully.
- Completed the operation of “Barwa” system, which is an electronic portal system for submitting contract requests and sending Auto notification to the user of the end of the contract (Via Oracle).
- ISO 9001:2015 was successfully re-certified in December 2021, without any observation from the external auditor.
- Improved the annual internal /external audit plan for the company’s procedures for the better achievement of audit and control.
- Out of its concern and efforts, the Company has been assessed at 97% by the State Audit Bureau for its compliance, according to the report of the Bureau on the follow-up of the entities under its oversight for settling the observations contained in its annual report of independent entities for fiscal year 2020/2021.
- KGOC got exempted from Kingdom of Saudi Arabia’s VAT, which improved the business and reduced the costs of implementing the tax.
- Proceeded with the negotiation process on the improvement and development of the KJO’s Agreement, in addition to the improvement and development of the new agreement of WJO.
- The KGOC 2040 strategic plan was updated and delivered to KPC on March 24, 2021. It includes the company’s internal and external analysis, updating its vision and strategic initiatives, as well as updating the required resources and success factors that help to achieve the strategy.
- The KGOC’s Sustainability Report 2020/2021 has been finalized, covering environmental, economic and social pillars, product responsibility, work practices and decent work.
- Work Guidance 2023-2027 (Financial Section) was co-issued with KJO CPD & AGOC to ensure that all NDE requirements are clear and agreed with the partner to avoid any delay or lack of information needed in preparing the 2023 Operational Budget in cooperation with the Strategic Planning Team.
- The cost of producing the barrel was successfully studied. A factor of high cost has been identified, and solutions and plans have been developed to legalize expenditure according to work needs.



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 2021

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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 2021, 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 2021, 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 (including International Independence Standards) (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.

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 2021 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, March 2021

Consolidated Statement of Financial Position as of 31 December 2021

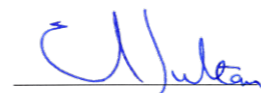
All amounts are in K.D

	Note	2021	2020
ASSETS			
Non-current assets			
Property, plant and equipment			
Tangible	3	1,022,862	1,046,520
Intangible	4	28,702	35,070
Right-of-use assets	5	66,592	85,792
Accounts receivable and prepayments	6	1,083	5,656
Loans to employees	7	7,125	6,693
		<u>1,126,364</u>	<u>1,179,731</u>
Current assets			
Inventories	8	17,469	17,513
Deferred cost	9	9,625	17,984
Accounts receivable and prepayments	6	14,671	9,516
Loans to employees	7	3,703	3,632
Term deposits	10	5,024	4,552
Cash and bank balances	11	5,658	4,890
		<u>56,150</u>	<u>58,087</u>
Total assets		<u>1,182,514</u>	<u>1,237,818</u>
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	12	120,000	120,000
Foreign currency translation reserve		46,076	48,539
Remeasurement of defined benefit obligation		(25,513)	(27,235)
		<u>140,563</u>	<u>141,304</u>
Non current liabilities			
Due to the Ultimate Parent	13	630,349	675,671
Employees' provident fund	14	13,793	13,601
Post employment benefits	15	187,458	178,742
Lease liabilities	16	49,852	67,044
		<u>881,452</u>	<u>935,058</u>
Current liabilities			
Accounts payable and other liabilities	17	144,931	143,422
Lease liabilities	16	15,568	18,034
		<u>160,499</u>	<u>161,456</u>
Total shareholder's equity and liabilities		<u>1,182,514</u>	<u>1,237,818</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 2021

All amounts are in K.D

	Note	2021	2020
Operating expenses	18	198,633	183,401
General and administration expenses	19	27,253	29,386
Depreciation and amortization	3,4 & 5	99,848	94,714
Interest on lease liabilities	16	2,024	1,354
Directors' remuneration	20	70	56
Interest income		(1)	(8)
Other income		(1,648)	(170)
Gross Expenses		<u>326,179</u>	<u>308,733</u>
Movement in deferred cost		8,359	(17,984)
Net Expenses		<u>334,538</u>	<u>290,749</u>
Costs reimbursable by the Ultimate Parent	13	(334,538)	(290,749)

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

Consolidated Statement of Comprehensive Income – Year ended 31 Dec. 2021

All amounts are in K.D

	2021	2020
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit obligation	1,722	1,119
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustment	(2,463)	225
Total comprehensive (expense)/ income for the year	(741)	1,344

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

Consolidated Statement of Changes in Equity – Year ended 31 Dec. 2021

All amounts are in K.D

	Share capital	Foreign currency translation reserve	Remeasurement of defined benefit obligation	Total
Balance at 31 December 2020	120,000	48,539	(27,235)	141,304
Total comprehensive income for the year	-	(2,463)	1,722	(741)
Balance at 31 December 2021	120,000	46,076	(25,513)	140,563
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

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

	Note	2021	2020
Cash flows from operating activities			
Net expenses for the year		(334,538)	(290,749)
Adjustments for:			
Depreciation and amortization	3, 4 & 5	99,848	94,714
Property, plant and equipment written off	3	101	1,104
Construction in progress written off	3	5	138
Provision for inventory obsolescence		(390)	(718)
Provision for employees' end of service benefits		18,318	18,169
Provision for provident funds		871	1,209
Interest on lease liabilities	16	2,024	1,354
Operating expenditure before working capital changes		(213,761)	(174,779)
Working capital changes:			
Accounts receivable and prepayments		(582)	1,141
Loans to employees		(503)	(792)
Inventories		434	4,872
Deferred cost		8,359	(17,984)
Accounts payable and other liabilities		867	(13,380)
Cash used in operations		(205,186)	(200,922)
Employees' end of service benefits paid		(7,555)	(4,175)
Provident fund (withdrawals)/deposits		(679)	589
Net cash used in operating activities		(213,420)	(204,508)
Cash flows from investing activities			
Payment for purchase of property, plant and equipment – tangible		(57,927)	(44,741)
Term deposits		(472)	(1,618)
Net cash used in investing activities		(58,399)	(46,359)
Cash flows from financing activities			
Lease liabilities paid	16	(16,154)	(10,707)
Funds received from the Ultimate parent	13	289,216	263,099
Net Cash generated from financing activities		273,062	252,392
Net increase in cash and cash equivalents		1,243	1,525
Effect of foreign exchange rate changes		(475)	(1,334)
Cash and cash equivalents - at beginning of year		4,890	4,699
Cash and cash equivalents - at end of year		5,658	4,890
Non-cash investing and financing activities			
Right-of-use assets recorded against lease liabilities	5	(49,170)	(78,535)
Right-of-use assets termination	5	54,470	-
Additions to property, plant and equipment - tangible through transfer from assets under construction	3	(58,452)	(74,559)
Additions to property, plant and equipment - intangible through transfer from assets under construction	3,4	(26)	(602)

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

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 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 (collectively referred to as “the 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 whereby 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 Ministry of Energy, Kuwait resolution No. 2/2005, Kuwait Government’s interest in the onshore petroleum production operations at the Divided Zone between 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 (SAC) 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 10 March 2022 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 2021 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 and WJO has approved its budget for 2022. As of 31 December 2021, the Group's current liabilities exceeded its current assets by KD 104,349 thousand (2020: KD 103,369 thousand). The Group's operations are entirely funded by the Ultimate Parent, who recognises the revenue from oil production at KJO and WJO. 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 2021, pending issue of their audited financial statements as of that date. The Group's management believes that no material changes are likely to arise on issue of the audited financial statements of KJO for the year ended 31 December 2021.

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 2021

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 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

Amendments to IFRS 16 COVID-19 Related Rent Concessions

In March 2021, the International Accounting Standards Board amended IFRS 16 to extend the availability of the practical expedient that was released in May 2020 with an expiration date of 30 June 2020. This practical expedient relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification. The extension applies to rent concessions for which any reduction in lease payments which are originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. This is the only change made to the practical expedient.

Other amendments which are applicable for annual period ended 31 December 2021 do not have any impact on the consolidated financial statement of the Group.

New and revised IASB Standards, but not yet effective

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17 <i>Insurance Contracts</i>	The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023.
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.
Amendments to IFRS 3 Reference to the Conceptual Framework	The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated <i>Conceptual Framework</i>) at the same or earlier.
Amendments to IAS 16 <i>Property, Plant and Equipment—Proceeds before Intended Use</i>	The amendments are effective for annual periods beginning on or after 1 January 2022, with early application Permitted.
Amendments to IAS 37 <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.
Annual Improvements to IFRS Standards 2018-2020 Cycle	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture</i> The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.
Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9 The amendment is effective for annual periods beginning on or after 1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies the amendment is effective for annual periods beginning on or after 1 January 2023
Amendments to IAS 8	Definition of accounting estimates The amendment is effective for annual periods beginning on or after 1 January 2023

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.

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:

	Years
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

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. Associated gas produced along with production of crude oil are being accounted for as a by-product based on incremental cost from the point of separation and are added as part of deferred cost.

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 contribute 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.

2.15 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 incurs 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.

3. Property, plant and equipment – Tangible

	Plant	Buildings	Structures	Wells (Non-exploratory)	Wells (exploratory)	Pipelines, equipment & machinery	Furniture & tools	Ships & vehicles	Computer & Commercial Equipment	Construction in progress	Total
Cost											
At 1 January 2021	188,720	87,458	130,959	798,043	63,534	858,099	11,094	5,430	26,424	178,322	2,348,083
Additions	5,084	6,047	8	-	-	16,986	169	7,847	6	22,422	58,569
Transfers	-	6	2,596	-	-	53,903	-	-	1,947	(58,452)	-
Transfer to intangible	-	-	-	-	-	-	-	-	-	(26)	(26)
Transfer to Expenditure	-	-	-	-	-	-	-	-	-	(5)	(5)
Write off	-	(229)	(45)	-	-	(899)	(39)	-	(19)	-	(1,231)
Exchange adjustment	-	(227)	(424)	(1,386)	(210)	(3,004)	(97)	(18)	(59)	232	(5,193)
At 31 December 2021	193,804	93,055	133,094	796,657	63,324	925,085	11,127	13,259	28,299	142,493	2,400,197
Accumulated Depreciation											
At 1 January 2021	120,132	43,843	48,670	616,256	40,855	394,818	10,698	4,967	21,324	-	1,301,563
Charge for the year	4,841	3,554	4,781	31,739	3,639	28,840	131	1,001	1,102	-	79,628
Write off	-	(211)	(37)	-	-	(824)	(39)	-	(19)	-	(1,130)
Exchange adjustment	-	(194)	(148)	(951)	(127)	(1,145)	(96)	(18)	(47)	-	(2,726)
At 31 December 2021	124,973	46,992	53,266	647,044	44,367	421,689	10,694	5,950	22,360	-	1,377,335
Net book value											
At 31 December 2021	68,831	46,063	79,828	149,613	18,957	503,396	433	7,309	5,939	142,493	1,022,862
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

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

	Plant	Buildings	Structures	Wells (Non-exploratory)	Wells (exploratory)	Pipelines, equipment & machinery	Furniture & tools	Ships & vehicles	Computer & Commercial 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

4. Property, plant and equipment - Intangible

	Seismic surveys	Others	Total
Cost			
At 1 January 2020	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
Transfer from construction in progress		26	26
Disposals		(50)	(50)
Exchange adjustment	(303)	222	(81)
At 31 December 2021	61,826	21,608	83,434
Accumulated amortization			
At 1 January 2020	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
Amortized during the year	4,714	1,665	6,379
Disposals	-	(50)	(50)
Exchange adjustment	(46)	(20)	(66)
At 31 December 2021	36,963	17,769	54,732
Net book value			
At 31 December 2021	24,863	3,839	28,702
At 31 December 2020	29,834	5,236	35,070

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.

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	Aircraft	Total
Balance as of 1 January 2021	58,869	10,601	9,700	576	1	6,045	85,792
Add: Additions	36,721	10,686	1,635	124	4	-	49,170
Less: Termination	(54,436)	-	(34)	-	-	-	(54,470)
Less: Amortization	(4,606)	(5,585)	(2,867)	(148)	(2)	(633)	(13,841)
Exchange adjustment	1	(21)	(17)	(1)	-	(21)	(59)
Closing balance as at 31 December 2021	36,549	15,681	8,417	551	3	5,391	66,592
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	58,869	10,601	9,700	576	1	6,045	85,792

	2021	2020
Expense relating to short-term leases (included in operating expenditure)	2,548	3,102
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in operating expenditure)	104,935	104,678

6. Accounts receivable and prepayments

	2021	2020
Non-current		
Prepayments	1,083	5,656
Current		
Accounts receivable	3,962	3,381
Prepayments	10,709	6,135
	14,671	9,516
	15,754	15,172

Accounts receivable includes KD 2,834 thousand due from the SAC (2020: KD 3,006 thousand).

Accounts receivable and prepayments include KD 10,382 thousand denominated in US Dollars (31 December 2020: KD 10,346 thousand).

7. Loans to employees

	2021	2020
Non-current	7,125	6,693
Current	3,703	3,632
	<u>10,828</u>	<u>10,325</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 8,307 thousand (2020: KD 7,446 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 8,363 thousand is due in US Dollars (31 December 2020: KD 7,935 thousand).

8. Inventories

	2021	2020
Materials and supplies	28,170	27,824
Provision for obsolete and slow-moving items	(10,701)	(10,311)
	<u>17,469</u>	<u>17,513</u>

9. Deferred cost

This represents value of oil, lean gas and natural gas liquid 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 1.60% (2020: 3.13%) and saving scheme deposit is 2% (2020: 1.55%).

11. Cash and bank balances

Cash at banks includes KD 0.40 million (2020: KD 0.62 million) 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 2020: 120,000,000 shares of KD 1 each).

13. Due to the Ultimate Parent

	2021	2020
Balance at 1 January	675,671	703,321
Funds received during the year	289,216	263,099
Costs reimbursable by the Ultimate Parent	(334,538)	(290,749)
Balance at 31 December	<u>630,349</u>	<u>675,671</u>

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

	2021	2020
Savings scheme	5,065	5,020
Investment scheme	1,767	1,662
Reward scheme	6,961	6,919
	<u>13,793</u>	<u>13,601</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

	2021				2020
	Regular	Special	Early/others	Total	Total
At 1 January	162,565	14,760	1,417	178,742	165,783
Exchange adjustment	(291)	(85)	(4)	(380)	84
Net movements during the year	10,685	586	(453)	10,818	13,994
Actuarial valuation gain	(1,303)	(419)	-	(1,722)	(1,119)
At 31 December	<u>171,656</u>	<u>14,842</u>	<u>960</u>	<u>187,458</u>	<u>178,742</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.

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

	2021	2020
Discount rate	2.70%	2.50%
Expected rate of salary increase	5.50%	5.50%

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

	2021	2020
Balance as of 1 January	85,078	15,982
Additions	49,170	78,535
Disposals	(54,470)	-
Accretion of interest	2,024	1,354
Payments	(16,154)	(10,707)
Exchange adjustment	(228)	(86)
Closing balance as at 31 December	65,420	85,078
Of which are:		
Current lease liabilities	15,568	18,034
Non-current lease liabilities	49,852	67,044
	65,420	85,078

17. Accounts payable and other liabilities

	2021	2020
Accounts payable	55,516	57,778
Accrued expenses	20,649	19,886
Accrued capital expenditure	40,274	40,916
Provision for litigations and claims	23,175	22,951
Other payables	5,317	1,891
	144,931	143,422

Accrued expenses include KD 3,589 thousand (31 December 2020: KD 3,745 thousand) payable to a related party.

Accounts payable and accruals include KD 40,451 thousand denominated in USD Dollars (31 December 2020: KD 20,831 thousand).

18. Operating expenses

	2021	2020
Staff Cost	118,029	111,284
Repairs & maintenance	19,657	18,293
Technical, drilling & other services	17,754	15,009
Medical cost	12,288	13,104
Fuel & utilities	6,876	6,260
Material consumed	5,611	6,159
Manpower supply cost	6,198	6,043
Information Technology	2,343	2,659
Others	9,877	4,590
	198,633	183,401

19. General and administration expenses

	2021	2020
Staff cost	18,362	18,690
Medical cost	2,732	3,506
Manpower supply cost	2,619	3,082
Information Technology cost	2,099	2,799
Others	1,441	1,309
	27,253	29,386

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:

	2021	2020
Exploration assets		
Tangible assets (note 3)	18,957	22,679
Construction in progress	41	41
Total exploration assets	18,998	22,720

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 17,982 thousand (2020: KD 14,704 thousand) incurred through related parties for providing administration and other support services.

Nature of transactions	Relationships	2021	2020
Manpower supply services	AGOC and SAC	1,464	1,224
Purchase of fuel & diesel	Companies affiliated to the Parent and AGOC	5,139	2,388
Medical and other services	Companies affiliated to the Parent and AGOC	8,511	10,133
Accommodation & other services	Companies affiliated to the Parent	2,290	959

Key management compensation

	2021	2020
Salaries and other benefits	532	651
Post-employment benefits	112	131
	<u>644</u>	<u>782</u>

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	
	2021	2020	2021	2020
Assets				
Property, plant and equipment-Tangible	773,647	808,369	226,845	217,171
Property, plant and equipment-Intangible	2,625	3,585	26,077	31,485
Right-of-use assets	25,469	21,432	39,774	64,110
Loans to employees	8,357	7,935	-	-
Inventories	8,896	9,000	8,572	8,513
Deferred cost	8,028	15,812	1,596	2,172
Accounts receivables and prepayments	10,841	10,321	2,833	3,004
Term deposit	5,024	4,552	-	-
Cash and bank balances	2,217	2,752	-	-
	<u>845,104</u>	<u>883,758</u>	<u>305,697</u>	<u>326,455</u>
Liabilities				
Employees' provident fund	13,793	13,601	-	-
Post-employment benefits	113,595	110,329	49,040	46,185
Accounts payable and other liabilities	76,793	78,861	31,386	26,214
Lease liabilities	25,558	20,494	38,511	64,320
	<u>229,739</u>	<u>223,285</u>	<u>118,937</u>	<u>136,719</u>
Net assets	<u>615,365</u>	<u>660,473</u>	<u>186,760</u>	<u>189,736</u>
Net Expenses for the year	<u>(183,863)</u>	<u>(157,509)</u>	<u>(123,181)</u>	<u>(103,603)</u>
Others				
Proportionate share in joint capital commitments	74,234	39,901	13,586	336
Proportionate share in other operating commitments	138,299	46,603	103	438
	<u>212,533</u>	<u>86,504</u>	<u>13,689</u>	<u>774</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 2020, the outbreak of COVID-19 pandemic brought disruptions in business operations of the Group and the economies in which the Group operates. Consistent with its risk management framework, the management continues to follow 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:

	2021	2020
Accounts receivable	3,962	3,381
Loans to employees	10,828	10,325
Term deposits	5,024	4,552
Balances with banks	5,658	4,890
	<u>25,472</u>	<u>23,148</u>

Accounts receivable represents current account balances due from SAC. 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 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.

The Group's exposure to foreign currency risk is not material as at 31 December 2021.

(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 2021.

(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 2021 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 man-

agement 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

The future dynamics of the COVID-19 pandemic remain uncertain due to its evolving nature (new ongoing waves of infection, new restrictions, new variants, vaccination efficacy and rollouts). The full extent of the impact of the crisis in the region and related policy and support measures is still not fully known.

The economy suffered significant consequences following the introduction of the first round of restrictive measures in March 2020 until now. In order to determine the effects of the COVID-19 pandemic on the Group's operations, it is essential to consider the pre-pandemic situation before moving from the beginning of the pandemic to the present day.

The availability of robust macroeconomic forecasts for the region is limited, which makes predictions regarding full recovery difficult. Nevertheless, existing data suggest that most industries will recover more slowly than the national macroeconomic average.

The Group has performed an assessment of COVID-19 implications on the financial results of the Group, in light of the available guidance of IFRS, and incorporated the outcome in these consolidated financial statements and explained the changes related to the critical judgement and estimates for the year ended 31 December 2021.



Further, management is aware that any further disruptions due to the emerging new covid variants could negatively impact the consolidated financial position, performance and cash flows of the Group in the future. Management continues to closely monitor the market trends, its industry reports and cash flows to minimise any negative impact on the Group.

29. Subsequent event

During 2021, Zakat, Tax and Customs Authority (“ZATCA”) has issued clarification (the “Clarification”) that KGOC (being company registered in Kuwait) is representing the State of Kuwait 50% interest in the business of the Joint Operations in the divided neutral zone. KJO’s activities in the divided neutral zone shall be considered as services performed outside the Kingdom’s of Saudi Arabia jurisdiction, and is considered as if it has been performed within the territory of the State of Kuwait. Therefore, it does not fall within the scope of the VAT Law and does not levy for the supply of those services subject to VAT in the Kingdom of Saudi Arabia. ZATCA communicated the effective date of the Clarification is the end of December 2019. KJO management was in discussion with the ZATCA to apply the Clarification on applicability of VAT laws since inception of the Joint Operation in accordance with the 1965 concession agreement signed between Saudi and Kuwait government.

Subsequent to the balance sheet date, ZATCA has issued a further clarification stating that they believe there is no reason preventing KJO applying the same treatment mentioned in the Clarification issued during 2021 to the period preceding the end of December 2019.

30. 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.