

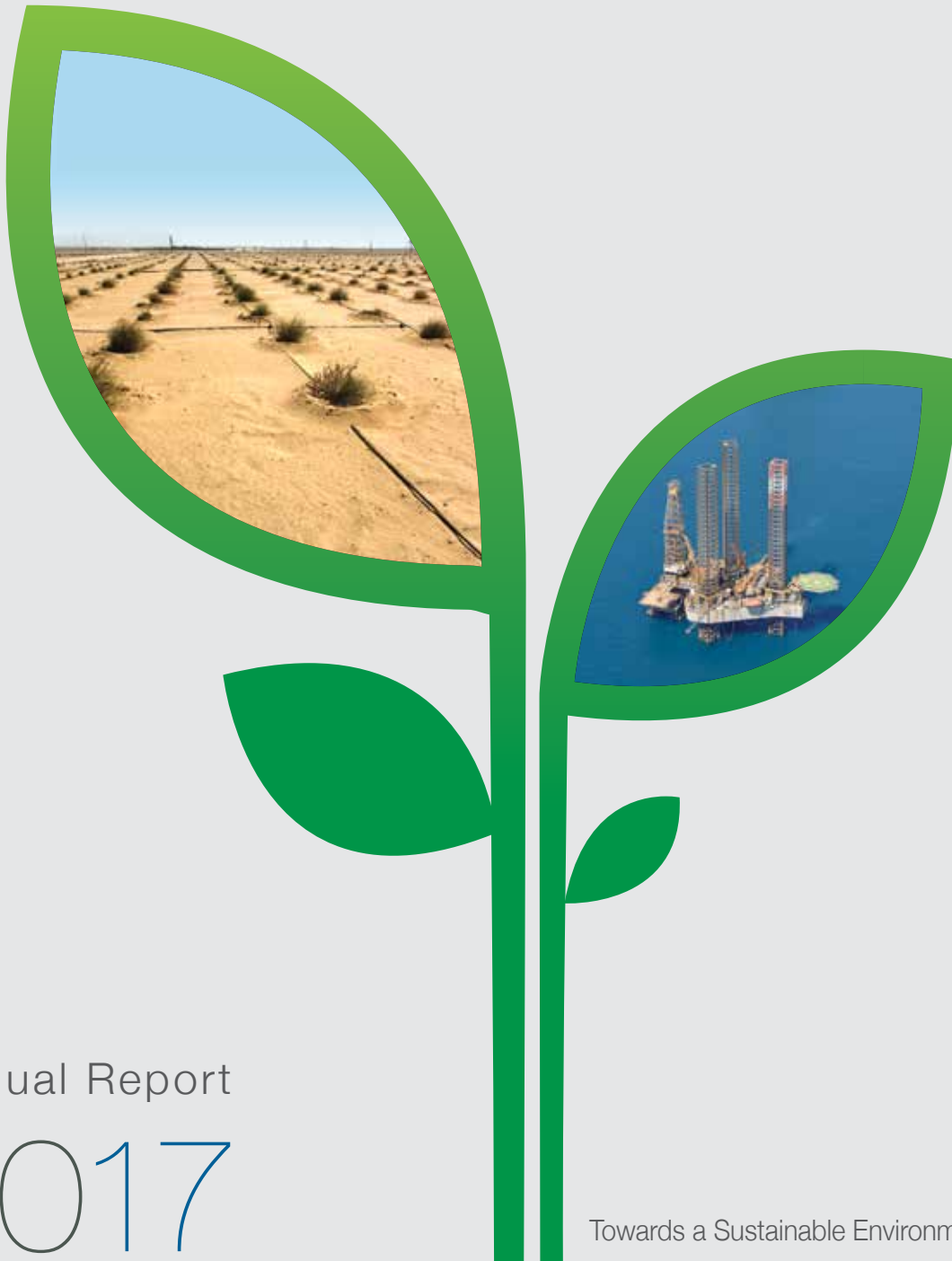


الشركة الكويتية لنفط الخليج (ش.م.ك.)

KUWAIT GULF OIL COMPANY (K.S.C)

إحدى شركات مؤسسة البترول الكويتية

A Subsidiary of Kuwait Petroleum Corporation



Annual Report

2017

Towards a Sustainable Environment

الشركة الكويتية لنفط الخليج (ش.م.ك)

KUWAIT GULF OIL COMPANY (K.S.C)

إحدى شركات مؤسسة البترول الكويتية

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Annual Report 2017



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



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



His Highness
Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah
Prime Minister of the State of Kuwait

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Board Members



Fouad Issa Al-Abbasi
Chairman



Ali Sabt Bin Sabt
Deputy Chairman



Abdunaser Yousef Alfulaj
Board Member
Chief Executive Officer



Fadhel Sayed Abbas
Board Member



Sheikh/ Osamah Salman Al-Sabah
Board Member



Ahmad A M Al-Hamad
Board Member



Yousef Ahmad Ali
Board Member

Executive Management



Abdalnaser Yousef Alfulaj
Chief Executive Officer



Abdullah Matar Al-Shammari
Deputy CEO
Finance & Administration Affairs



Saeed Mohammed Al-Shaheen
Deputy CEO
Khafji Joint Operations

Top Management



Falah Al-Anezi
Manager Management Support



Mohammad Al-Hamdan
Assets Management (Khafji)



Bader Al-Harbi
Manager Legal Affairs



Faisal Bader Al-Jeri
Manager Financial Services



Helal M. Al-Mutairi
Manager Human Resources



Ahmad A. Al-Awadhi
Manager Corporate Planning



Abdulaziz Dashti
Manager Risk Management



Nasser Salem Rashid
Assets Management (Wafra)



Abdullah Ali Hashim
Manager Commercial Affairs &
Public Relations



Anwar Al-Sharqawi
Manager Information
Technology & Services

The Speech of the CEO



It is my great pleasure, and would like on behalf of myself, colleagues in Senior Management and all staff, to present the KGOC's Annual Report that includes the company's significant achievements, works and activities for the Financial Year ended on 31st December 2017, in addition to the Auditors' Report on the Company's Financial Statements.

At the beginning, we would like to point out that KGOC has continued during the year of 2017, in coordination with MoO & KPC on one side, and with the partners in KJO & WJO on the other side, regarding the plans and the steps needed to resume the production in both areas KJO & WJO, in order to achieve the aspirations through the optimal exploitation of the hydrocarbon fortunes, enhancement of our operational capabilities in the Divided Zone (DZ), and going forward to achieve the strategic objectives of KPC.

This report highlights the Company's Financial and Career Position, where it includes the affairs of maximizing the strategic value of hydrocarbon resources, and the development of reserves to ensure sustainability of production, considering the highest standards and measurements related to HSSE, in addition to projects for raising performance level and its interest in social responsibility.

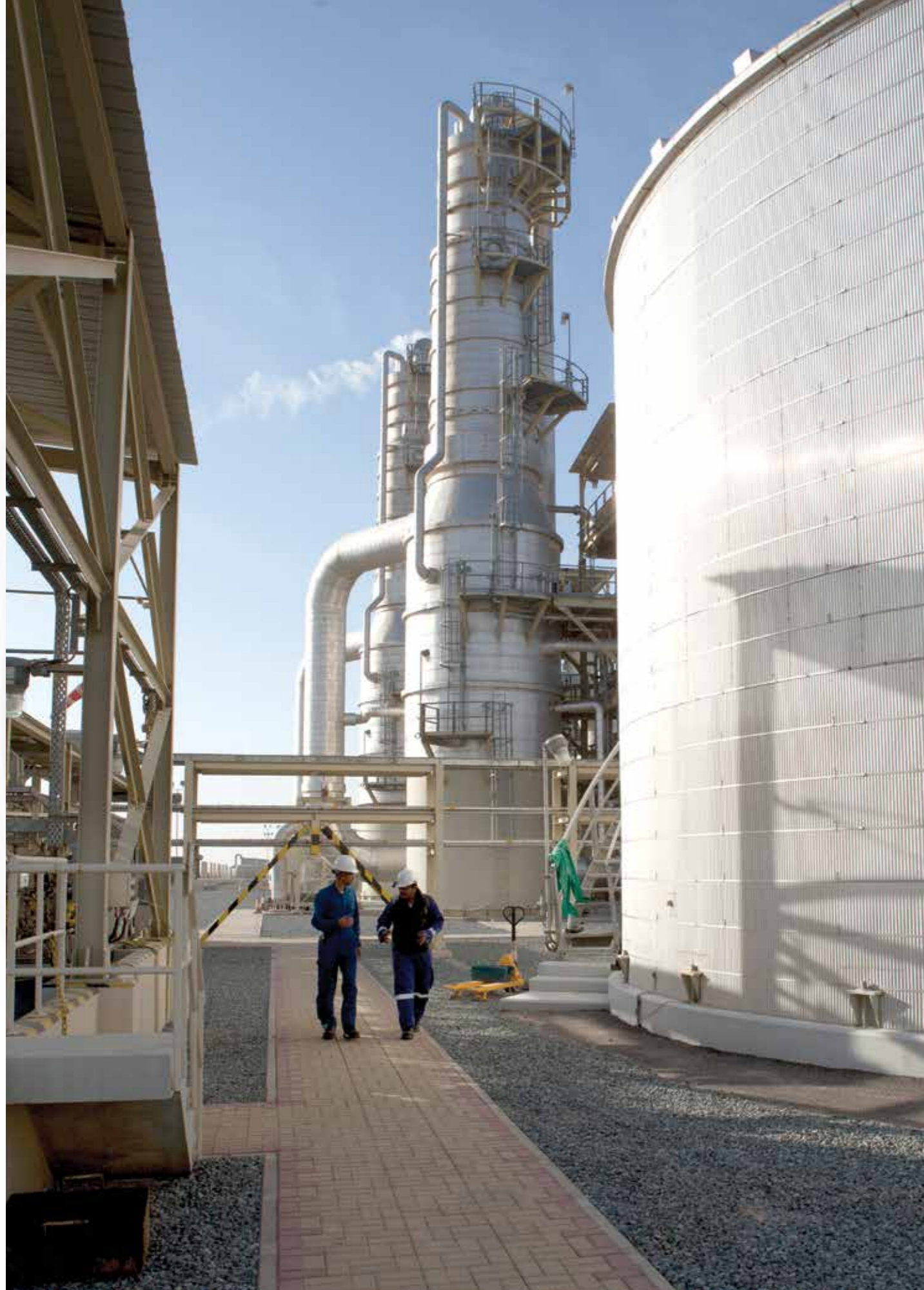
I would like, on behalf of myself, Colleagues in Senior Management and all Staff, to express my sincere thanks and appreciation to all the KGOC employees in various positions for what they provided from dedication and enthusiasm which had contributed to a great extent of achieving the Company's goals.

It is my pleasure as well to thank my dear colleagues, the Chairman and all Board Members for their valuable efforts, advice and support, which had the great impact in achieving the Company's objectives and strategy.

It is always my pleasure to extend our gratitude and being recognized to HE the Minister of Oil and the Minister of Electricity and Water, 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 its contribution to the national income. I take this opportunity to confirm our commitment to continue our effort to achieve their expectations along with the Company's long-term objectives.

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

Abdulnaser Y. Alfulaj
Chief Executive Officer



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 highlights the Company's Financial and Career Position, where it includes the affairs of maximizing the strategic value of hydrocarbon resources, and the development of reserves to ensure sustainability of production, considering the highest standards and measurements related to HSSE, in addition to projects for raising performance level and its interest in social responsibility, as follows:

1. Maximizing the Strategic Value of the Crude Oil:

- 1.1 The Company has achieved the maintenance works for more than 110 wells in WJO to maintain the oil wealth sources.
- 1.2 The fruitful and effective work to complete the phase II of KGOC's Strategic Plan 2040.
- 1.3 Completed what is needed for the operations' facilities to be ready for the return of production as soon as possible and as required by the governing regulations and laws in WJO & KJO.
- 1.4 In line with the efforts aimed to complete the direct evaluation of the external corrosion of the 12-inch Eocene crude line, which based on its results, it was determined that there was no need to replace the line, the estimated budget saved was KD 17 million.
- 1.5 Completion of the repair works for the concrete structure of the Corrosion Control Pit of the 16-inch Eocene crude line, which will preserve the assets safety in the area.

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

- 2.1 In the scope of the Company's efforts to reduce gas flaring in WJO, the Phase III (The Engineering Studies for the Optimal Option) of the 2nd Gas Flaring Reduction Project in WJO has been completed, to increase gas shipping to KOC, as the partner's approval (Saudi Arabian Chevron Co.) about the share of each partner remains.

- 2.2 Getting the Environment Public Authority (EPA) approval to study the Environmental and Social impact assessment of the 2nd Gas Flaring Reduction Project in WJO (A project completely funded by KGOC), which helps the Company's efforts to stop gas flaring in WJO.

- 2.3 98.3% of Al-Hout Gas Facilities Project in KJO was completed, which will result in completing Al-Hout Gas flaring, thereby achieving the optimal exploitation of the associated gas and environmental requirements in the area.

- 2.4 Completed the preparation of available options to develop Al-Dorra Field in KJO.

3 The Development of Oil Reserves to Ensure the Production Sustainability:

- 3.1 In the scope of the Company's efforts for development of the oil reserves, the drilling of Well # K-315 in KJO has been completed.
- 3.2 Processing the data of 3D Seismic Survey Project, as the new data was received with high quality integrated into one folder for the eastern and western areas of DZ.
- 3.3 Updating the potential exploration projects portfolio for exploration and evaluation, and 3 potential exploration projects were prepared to study the completion, which are: Arq Field (Maastrichtian Layer), Eastern Humma Field (Marrat Layer) and Wafra Field (Maastrichtian Layer).
- 3.4 Achieving the completion study operations of potential exploration projects for Wafra Field (Maastrichtian Layer) with estimating the expected oil resources, which resulted in finding out three sites fit for drilling.
- 3.5 Completion of a study aimed at updating the simulation model of Ratawi Reservoir (Oolite) in Wafra Field using Eclipse-100 Simulation Program. It was used to study the optimal design, as PEEP program was



used to study the economics for the Water Injection Project (Typical) for the whole Ratawi Reservoir (Oolite).

- 3.6 The appraisal study of the Water Injection Project by using the current injection wells of the Marrat Reservoir of C & A layers through using the updated simulation model of Humma Field through the Eclipse-100 Simulation Program.
- 3.7 Completing a study aimed at establishing Static Geological Model of the Maastrichtian reservoir in Wafra Field by using Petrel Program. The Geological Model was used to construct the Dynamic Simulation Model of the reservoir by using Eclipse-100 Simulation Program, in which its first phase (Upscaling & Initialization) was completed.
- 3.8 Completing the Technical Analytical Study to improve the productivity of the second Eocene reservoir in Wafra Field by using Cyclic Steam Stimulation method.
- 3.9 Completing the study of the optimal design for drilling of new wells at a distance of 20 acres between the wells for the 1st Eocene Reservoir in Wafra Field by using the Simulation Model.
- 3.10 Within the scope of its efforts to conduct business with the required professionalism and efficiency, the Company participated in workshops about the Dump Flood Project of Marrat Reservoir in Humma Field, and discussed the challenges of developing Wafra Field for Ratawi Reservoir through the Center of Excellence for the Exploration and Production Sector in order to share expertise between KPC's production and exploration companies (KOC-KUFPEC).
- 3.11 Approval of choosing two of the best practices presented by KUFPEC, namely the Submersible Electric Pump Technology (Reciprocating),

to be used after the return of operation in WJO, and the Geological Risks Modifying the Hydrocarbon to evaluate the prospects risks by using the Seismic Survey Capacity Analysis Unit (SAAM) from Rose & Associates Co.

- 3.12 The Company continues its efforts to develop the national employees of technical expertise in the engineering and geological fields, through training and on-the-job tasks that enable them to contribute to its important and strategic projects.

4. HSSE:

- 4.1 (15) Nos. of wells have been remedied in KJO in accordance with HSE specifications.
- 4.2 Started implementation of projects related to the environment conditions in KJO.
- 4.3 (462) Nos. of employees from HO & WJO were enrolled in HSE courses.

5. The Excellence in Performance:

- 5.1 Organizing field trips to visit employees in their worksites to try identifying their opinions and suggestions, and transferring them to the Senior Management to find proper solutions for the benefit of the Company's work and employees.
- 5.2 Enhancing and developing implementation of (iPhone Application) for Smartphones by HR Group and applying it in other departments such as Risk Management and Insurance Team.
- 5.3 Design and issuance of the first edition of HR Monthly Electronic Magazine (HR Transmission).
- 5.4 Completing the automatic link among KGOC, Kuwait Credit Bank, and Public Authority for Housing Welfare.
- 5.5 Activating Ebtikar Automation System
- 5.6 KGOC's Kuwaitization rate (HO & WJO) reached 96.92% until the end of December 2017, 4 % above the 2017 target rate (Estimated at 92.50%).



- 5.7 Learning Management System (LMS) was launched at the Company level to measure the general competencies.
- 5.8 Preparing, designing and implementing a training program for (15) Nos. of engineers and geologists from KGOC, and UK Ministry of Oil titled "Learning Path Program: Geo Training".
- 5.9 (460) Nos. of employees were enrolled in Petroleum Training Center's training and activities programs, and (125) Nos. of employees in external training programs.
- 5.10 KGOC's Training Performance Assessment Committee completed the 2017 development plans for the training needs of the employees.
- 5.11 KGOC contributed in the success of the first Electronic Announcement of the Scholarship System through its active participation in the preparation and sorting committees.
- 5.12 Develop a new system of differentiation for grades (16 and below) for WJO.
- 5.13 Develop a new system of differentiations for Departments Heads and Managers for KJO.
- 5.14 Transfer of the ownership and powers of (Western Hemisphere - Houston Office) from KPC to KGOC.
- 5.16 Establishing the "Assets and Scraps" Committee at KGOC HO, and determining the operations flow and needed procedures for removing the scrap materials from the Company's buildings.
- 5.17 Reformation of WJO's Claims Review Committee CLRT (Established on 26th September 2017).
- 5.18 (5) Nos. of claims in WJO were evaluated and approved cordially for settlement.
- 5.19 An automated program which includes a database of all Programs and Capital Projects of the Company has been developed, with the possibility of issuing reports in this regard.
- 5.20 Launch of the automation system of Auditing Affairs Team to follow up on the observations and queries of the Audit Bureau with the Company's various departments on 26th November 2017.
- 5.21 Completion of the Second Semi-Annual Report of the Audit Bureau's Report Observations for 2016 on 28th December 2017 (Before the deadline to submit the report).
- 5.22 Completion of the Second Quarterly Report of the repeated observations in the Audit Bureau Report for 2016 on 28th December 2017 (Before the deadline to submit the report).
- 5.23 KGOC's participation in the annual conference organized by the Society of Petroleum Engineers (SPE) in Dubai-UAE, from 27th to 28th September 2017 through presenting a Work Paper titled "Implementation of Customized Program Economic Evaluation and Capital Planning Solution"
- 6. Social Responsibility:**
- 6.1 Preparation of the Annual Report to encourage local manufacturers in the oil sector projects (The System of Encouraging the National Industry in the oil sector), in which it has achieved high rates for the interest of KGOC.
- 6.2 Implementation of "It Deserves Protection" the Environmental Media Campaign in cooperation with the EPA, which is addressed to the Kuwaiti society.
- 6.3 Documentation of the Oil Pits Remediation Project in WJO through a documentary film presented at the oil sector memory celebration of Extinguishing Kuwait's last Oil well.
- 6.4 Preparing and producing a video about KPC's eight values in coordination with (Media Relations) Team.

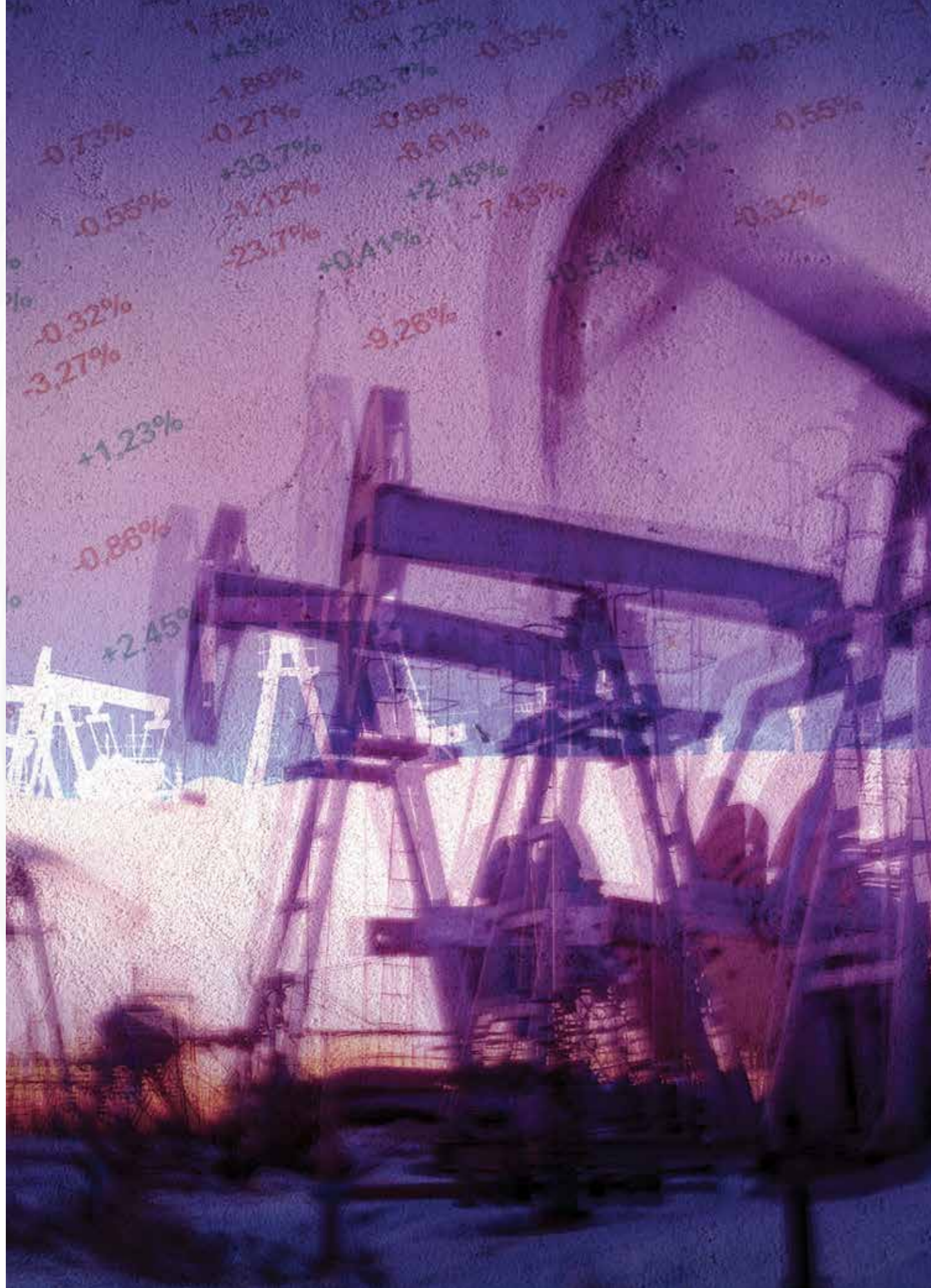


الشركة الكويتية لنفط الخليج (ش.م.ك.)
KUWAIT GULF OIL COMPANY (K.S.C)
 إحدى شركات مؤسسة البترول الكويتية
 A Subsidiary of Kuwait Petroleum Corporation

State of Kuwait

Annual Financial Statements and Independent Auditor's Report

31 December 2017



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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 Financial Statements

Deloitte.

Opinion

We have audited the financial statements of Kuwait Gulf Oil Company K.S.C.C. ("the Company"), which comprise the statement of financial position as at 31 December 2017, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position as at 31 December 2017, and its financial performance and 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 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 Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due

to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists, related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate 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 financial statements, together with the contents of the report of the Company's Board of Directors relating to these 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 financial statements incorporate all information that is required by Companies Law No. 1 of 2016, and its executive regulations; 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; or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Company or on its financial position.



Bader A. Al-Wazzan
Licence No. 62A
Deloitte & Touche
Al-Wazzan & Co.
Kuwait
27 March 2018

Statement of Financial Position as of 31 December 2017

	Note	KD 000's	
		2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment			
Tangible	3	1,141,490	1,263,662
Intangible	4	52,656	14,760
Accounts receivable and prepayments	5	5,835	6,300
Employees' loans	6	5,642	5,383
		<u>1,205,623</u>	<u>1,290,105</u>
Current assets			
Inventories	7	24,022	25,741
Accounts receivable and prepayments	5	7,864	7,192
Employees' loans	6	2,611	2,521
Cash and cash equivalents	8	6,441	6,569
		<u>40,938</u>	<u>42,023</u>
Total assets		<u>1,246,561</u>	<u>1,332,128</u>
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	9	120,000	120,000
Foreign currency translation reserve		45,385	57,322
Remeasurement of defined benefit obligation		(25,984)	(29,373)
		<u>139,401</u>	<u>147,949</u>
Non current liabilities			
Employees' provident fund	10	9,791	9,450
Post employment benefits	11	133,062	94,436
		<u>142,853</u>	<u>103,886</u>
Current liabilities			
Accounts payable and accruals	12	123,265	130,345
Due to the Parent	13	841,042	949,948
		<u>964,307</u>	<u>1,080,293</u>
Total shareholder's equity and liabilities		<u>1,246,561</u>	<u>1,332,128</u>

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

Abdulnaser Y. Alfulaj
Chief Executive Officer (CEO)

Fuad Al-Abbasi
Chairman of the Board

Statement of Income – Year ended 31 December 2017

	Note	KD 000's	
		2017	2016
Operating expenses	14	216,153	184,627
General and administration expenses	15	39,416	25,476
Depreciation and amortization	3 & 4	83,732	82,618
Directors' remuneration	16	55	65
Interest income		(19)	(7)
		<u>339,337</u>	<u>292,779</u>
Costs reimbursable by the Parent	13	(339,337)	(292,779)
Net income		<u>-</u>	<u>-</u>

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

Statement of Comprehensive Income – Year ended 31 December 2017

	KD 000's	
	2017	2016
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit obligation	3,389	(3,091)
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustment	(11,937)	6,310
Total comprehensive (expense)/income for the year	(8,548)	3,219

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

Statement of Changes in Equity – Year ended 31 December 2017

	KD 000's			
	Share capital	Foreign currency translation reserve	Remeasurement of defined benefit obligation	Total
Balance at 31 December 2016	120,000	57,322	(29,373)	147,949
Total comprehensive (expense)/income for the year	-	(11,937)	3,389	(8,548)
Balance at 31 December 2017	120,000	45,385	(25,984)	139,401
Balance at 31 December 2015	120,000	51,012	(26,282)	144,730
Total comprehensive income/(expense) for the year	-	6,310	(3,091)	3,219
Balance at 31 December 2016	120,000	57,322	(29,373)	147,949

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

	Note	KD 000's	
		2017	2016
Cash flows from operating activities			
Depreciation and amortization	3 & 4	83,732	82,618
Loss on disposal of property, plant & equipment		67	4
Assets under construction charged to expenditure		-	1,237
Operating cash before working capital changes		83,799	83,859
Increase in employee loans		(349)	(2,043)
Decrease in inventories		1,719	3,765
(Increase)/decrease in accounts receivable and prepayments		(207)	3,972
Decrease in due to the Parent		(108,906)	(1,232)
Increase in employees' provident fund		341	1,057
Increase in post employment benefits		42,837	1,227
Decrease in accounts payable and accruals		(7,080)	(34,180)
Net cash from operating activities		12,154	56,425
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(12,572)	(50,524)
Net cash used in investing activities		(12,572)	(50,524)
Net (decrease)/increase in cash and cash equivalents		(418)	5,901
Adjustment for foreign exchange rates		290	(3,843)
Cash and cash equivalents - at beginning of year		6,569	4,511
Cash and cash equivalents - at end of year	8	6,441	6,569

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

1. Constitution and principal activities

Kuwait Gulf Oil Company K.S.C.C. ("the 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 Parent"). The Parent is wholly owned by the Government of Kuwait.

The 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 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 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 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 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 representing the Kingdom of Saudi Arabia (collectively referred to as Wafra Joint Participants)

These financial statements comprise the Company and its 50% interest in the KJO and WJO.

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

These financial statements were authorized for issue by the Board of Directors on 27 March 2018 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 financial statements have been prepared in accordance with International Financial Re-

porting Standards (IFRS) issued by the International Accounting Standards Board (IASB) under the historical cost basis of measurement.

A decision was taken unilaterally by the Chairman, Joint Operations Committee, KJO to shut down KJO's crude oil production facilities with effect from 16 October 2014. This decision was neither endorsed by Joint Operations Committee nor Joint Executive Committee of KJO. The management is to preserve the KJO's facilities during the shut down period. Furthermore, Dorra offshore gas field development continues to be on hold as at 31 December 2017 pending instructions from Khafji Joint participants.

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

Both KJO and WJO are expected to continue their business, as their managements have been instructed to continue with all drilling, maintenance operations and capital investment activities. Furthermore, both the Khafji and Wafra Joint Participants have been funding the activities based on cash calls. KJO has approved its budget for 2018 and the Company believes that WJO will approve its budget for 2018. Accordingly, these financial statements have been prepared on a going concern basis.

These financial statements has been prepared using the management accounts of KJO as of 31 December 2017, pending issue of their audited financial statements as of that date. The Company believes that no material changes are likely to arise on issue of the audited financial statements of KJO for the year ended 31 December 2017.

The preparation of 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 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 financial statements are disclosed in Note 22.

Changes in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in previous year. Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Company.

Standards issued but not yet effective and not early adopted by the Company

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2018 have not been early adopted in the preparation of the Company's financial statements. None of these are expected to have a significant impact on the financial statements of the Company except the following:

IFRS 9: Financial Instruments

The IASB issued the final version of IFRS 9 "Financial Instruments" in July 2014 that replaces IAS 39 "Financial Instruments: Recognition and Measurement" and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not

compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date from 1 January 2018. The Company will avail of the exemption allowing it not to restate comparative information for prior periods. Differences in the carrying amounts of financial asset and financial liabilities resulting from the adoption of IFRS 9 will be recognised in opening retained earnings and reserves as at 1 January 2018.

a. Classification and measurement

IFRS 9 has a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: Measured at Amortised Cost; Fair Value through Other Comprehensive Income ("FVOCI") (with and without recycling of gains or losses to profit or loss on derecognition of debt and equity instruments, respectively); and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

The Company has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements. The Company does not expect a significant impact on its statement of financial position from applying the classification and measurement requirements of IFRS 9.

b. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Company is allowed to compute the life time expected credit loss of its trade receivables under simplified approach.

The impairment requirement apply to financial assets measured at amortised cost.

The Company has carried out a preliminary assessment of the impact of IFRS 9. Based on this assessment, adoption of IFRS 9 is not expected to have any material effect on the Company's financial statements.

IFRS 16 "Leases"

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Company is in the process of evaluating the impact of IFRS 16 on the Company's financial statements.

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

2.2 Financial instruments

Classification and Measurement

The Company classifies its financial assets as "loans and receivables" and its financial liabilities

as “other than at fair value through profit or loss”. Management determines the appropriate classification at the time of acquisition.

All financial assets and liabilities are initially recognized at its fair value plus transaction costs that are directly attributable to the acquisition of the financial instrument.

Loans and receivables

These are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortized cost using the effective yield method.

Financial liabilities

Financial liabilities are subsequently measured at amortized cost using the effective yield method.

Recognition and de-recognition

The Company recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the company has transferred substantially all the risks and rewards of the ownership or when it has neither transferred nor retained substantially all risks and rewards of ownership and it no longer has control over the assets or portion of the asset. If the Company has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. A financial liability is derecognised when the obligation specified in the contract is discharged.

All regular way purchase and sale of financial assets are recognized using trade date accounting. 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 market place.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Company. 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.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques:

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.

Amortised cost

This is computed using the effective interest rate less any allowances for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset, or a group of similar assets, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined based on the historical patterns of losses in each component and the credit standing of the counter party and any loss is recognised in the statement of income.

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 Company undertakes its activities under joint operations, the Company 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 revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
Its expenses, including its share of any expenses incurred jointly.

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

When the Company transacts with a joint operation in which a Company is a joint operator (such as sale or contribution of assets), the 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 Company's financial statements only to the extent of other parties' interest in the joint operation.

When the Company transacts with a joint operation in which a Company is a joint operator (such as purchase of assets), the 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

These assets are reviewed at each 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 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 statement of income.

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.

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.

2.6 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.

2.7 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 statement of cash flows.

2.8 Employees provident fund

Joint operation partner 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.

2.9 Post employment benefits

The 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 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 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 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.

2.10 Foreign currencies

The financial statements are presented in Kuwaiti Dinars, which is the 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 statement of financial position date. Resultant gains/ losses are taken to the 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 statement of comprehensive income as a separate component of equity.

2.11 Leases

Where the Company is the lessee

Lease of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

2.12 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 statement of income.

2.13 Revenue recognition

Interest income is recognised using the effective yield method.

3. Property, plant and equipment – Tangible

	KD 000's										
	Plant	Build-ings	Struc-tures	Wells (Non-explor-atory)	Wells (ex-plor-atory)	Pipe-lines, equip-ment & machin-ery	Furni-ture & tools	Ships & ve-hicles	Com-puter & Comm. Equip-ment	Con-struction in prog-ress	Total
Cost											
At 1 January 2017	174,015	86,154	106,849	780,101	64,067	718,835	10,908	5,491	23,480	296,318	2,266,218
Additions	-	-	-	-	-	63	-	-	3	12,506	12,572
Transfers	6,086	2,193	4,639	18,223	79	55,395	43	3	808	(87,469)	-
Transfer to Intangible	-	-	-	-	-	-	-	-	-	(42,280)	(42,280)
Disposals	-	(163)	(126)	-	-	(356)	(10)	-	(10)	-	(665)
Exchange adjustment	-	(1,068)	(1,699)	(6,257)	(999)	(10,190)	(163)	(82)	(300)	(3,610)	(24,368)
At 31 December 2017	180,101	87,116	109,663	792,067	63,147	763,684	10,841	5,412	23,981	175,465	2,211,477
Accumulated Depreciation											
At 1 January 2017	104,570	30,930	31,778	475,734	26,471	303,826	9,630	4,320	15,297	-	1,002,556
Charge for the year	3,756	3,335	3,887	40,795	3,666	21,194	554	279	1,775	-	79,241
Disposals	-	(96)	(126)	-	-	(356)	(10)	-	(10)	-	(598)
Exchange adjustment	-	(385)	(525)	(7,018)	(440)	(2,412)	(143)	(66)	(223)	-	(11,212)
At 31 December 2017	108,326	33,784	35,014	509,511	29,697	322,252	10,031	4,533	16,839	-	1,069,987
Net book value											
At 31 December 2017	71,775	53,332	74,649	282,556	33,450	441,432	810	879	7,142	175,465	1,141,490
At 31 December 2016	69,445	55,224	75,071	304,367	37,596	415,009	1,278	1,171	8,183	296,318	1,263,662

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

	KD 000's										
	Plant	Build-ings	Struc-tures	Wells (Non-explor-atory)	Wells (ex-plor-atory)	Pipe-lines, equip-ment & machin-ery	Furni-ture & tools	Ships & ve-hicles	Com-puter & Comm. Equip-ment	Con-struction in prog-ress	Total
Cost											
At 1 January 2016	168,625	71,114	78,807	729,825	63,708	640,933	9,671	4,802	19,850	414,714	2,202,049
Additions	-	-	-	-	-	17	114	-	6	50,387	50,524
Transfers/adjustments	5,390	14,389	26,977	46,206	(173)	72,340	1,147	642	3,462	(170,380)	-
Charged to expenditure	-	-	-	-	-	-	-	-	-	(1,237)	(1,237)
Transfer to Intangible	-	-	-	-	-	-	-	-	-	(1,873)	(1,873)
Disposals	-	-	-	-	-	(62)	(118)	-	(15)	-	(195)
Exchange adjustment	-	651	1,065	4,070	532	5,607	94	47	177	4,707	16,950
At 31 December 2016	174,015	86,154	106,849	780,101	64,067	718,835	10,908	5,491	23,480	296,318	2,266,218
Accumulated Depreciation											
At 1 January 2016	101,089	27,037	27,408	433,371	22,590	280,748	8,900	3,999	13,050	-	918,192
Charge for the year	3,481	3,678	4,079	40,677	3,634	20,816	774	284	2,177	-	79,600
Disposals	-	-	-	-	-	(53)	(118)	-	(20)	-	(191)
Exchange adjustment	-	215	291	1,686	247	2,315	74	37	90	-	4,955
At 31 December 2016	104,570	30,930	31,778	475,734	26,471	303,826	9,630	4,320	15,297	-	1,002,556
Net book value											
At 31 December 2016	69,445	55,224	75,071	304,367	37,596	415,009	1,278	1,171	8,183	296,318	1,263,662
At 31 December 2015	67,536	44,077	51,399	296,454	41,118	360,185	771	803	6,800	414,714	1,283,857

4. Property, plant and equipment - Intangible

	KD 000's		
	Seismic surveys	Others	Total
Cost			
At 1 January 2016	23,001	13,860	36,861
Transfer from asset under construction	622	1,251	1,873
Exchange adjustment	152	53	205
At 31 December 2016	23,775	15,164	38,939
Transfer from asset under construction	36,884	5,396	42,280
Exchange adjustment	(284)	131	(153)
At 31 December 2017	60,375	20,691	81,066
Accumulated amortization and impairment losses			
At 1 January 2016	13,438	7,579	21,017
Amortized during the year	1,606	1,412	3,018
Exchange adjustment	103	41	144
At 31 December 2016	15,147	9,032	24,179
Amortized during the year	2,679	1,812	4,491
Exchange adjustment	(184)	(76)	(260)
At 31 December 2017	17,642	10,768	28,410
Net book value			
At 31 December 2017	42,733	9,923	52,656
At 31 December 2016	8,628	6,132	14,760

5. Accounts receivable and prepayments

	KD 000's	
	2017	2016
Non-current		
Prepayments	5,835	6,300
Current		
Accounts receivable	856	1,085
Prepayments	7,008	6,107
	<u>7,864</u>	<u>7,192</u>
	<u>13,699</u>	<u>13,492</u>

Accounts receivable represents KD 856 thousand due from the joint operation partner (2016: KD 1,085 thousand).

Accounts receivable and prepayments include KD 9,557 thousand denominated in US Dollars (31 December 2016: KD 11,045 thousand).

6. Employees' loans

	KD 000's	
	2017	2016
Non-current	5,642	5,383
Current	2,611	2,521
	<u>8,253</u>	<u>7,904</u>

Employee loans consist of interest free home loans and other loans extended to employees of the joint operation and the Company. Home loans amounting to KD 6,119 thousand (2016: KD 5,605 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. The employee loans are neither past due nor impaired.

Of the above, KD 6,471 thousand is due in US Dollars (31 December 2016: KD 6,054 thousand).

7. Inventories

	KD 000's	
	2017	2016
Materials and supplies	33,351	34,697
Provision for obsolete and slow-moving items	(9,329)	(8,956)
	<u>24,022</u>	<u>25,741</u>

8. Cash and cash equivalents

	KD 000's	
	2017	2016
Cash at banks	5,321	5,614
Term deposits	1,120	955
	<u>6,441</u>	<u>6,569</u>

Cash at banks includes KD 2.53 million (2016: KD 2.78 million) earmarked funding towards the Company's share of saving scheme as disclosed under Note 10.

9. Share capital

The share capital of the Company comprises of 120,000,000 authorised, issued and fully paid up shares of KD 1 each (31 December 2016: 120,000,000 shares of KD 1 each).

10. Employees' provident fund

	KD 000's	
	2017	2016
Savings scheme	3,811	3,745
Investment scheme	1,080	1,095
Reward scheme	4,900	4,610
	<u>9,791</u>	<u>9,450</u>

The above schemes are funded by savings accounts and short-term deposits (Note 8).

11. Post employment benefits

	KD 000's				
	2017				2016
	Regular	Special	Early/others	Total	Total
At 1 January	81,761	12,305	370	94,436	88,215
Exchange adjustment	(570)	(202)	(50)	(822)	1,903
Net movements during the year	42,258	588	(9)	42,837	1,227
Actuarial valuation (gain)/loss	(2,410)	(751)	(228)	(3,389)	3,091
At 31 December	<u>121,039</u>	<u>11,940</u>	<u>83</u>	<u>133,062</u>	<u>94,436</u>

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

1. Regular termination benefit scheme is based on years of service and last salary before termination of employment.
2. 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.
3. 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.

12. Accounts payable and accruals

	KD 000's	
	2017	2016
Accounts payable	51,732	58,837
Accrued expenses	60,731	60,642
Other payables	10,802	10,866
	<u>123,265</u>	<u>130,345</u>

Accrued expenses include KD 1,807 thousand (31 December 2016: KD 2,690 thousand) payable to a related party.

Accounts payable and accruals include KD 79,236 thousand denominated in US Dollars (31 December 2016: KD 101,013 thousand).

13. Due to the Parent

	KD 000's	
	2017	2016
Balance at 1 January	949,948	951,180
Funds received during the year	230,431	291,622
Costs reimbursable by the Parent	(339,337)	(292,779)
Other movements	-	(75)
Balance at 31 December	<u>841,042</u>	<u>949,948</u>

14. Operating expenses

	KD 000's	
	2017	2016
Contracts	44,033	53,670
Staff costs	158,440	127,681
Operating lease rental	4,509	2,263
Well abandonment expenses	9,171	1,013
	<u>216,153</u>	<u>184,627</u>

15. General and administration expenses

	KD 000's	
	2017	2016
Staff costs	23,702	17,413
Training	915	379
Others	14,799	7,684
	<u>39,416</u>	<u>25,476</u>

16. Directors' remuneration

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

17. 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 Company has entered into transactions with related parties on terms approved by management. Balances and transactions with related parties not disclosed elsewhere in these financial statements are as follows:

Expenses for the year include KD 6,254 thousand (2016: KD 7,094 thousand) charged by related parties for providing administration and other support services.

Key management compensation

	KD 000's	
	2017	2016
Salaries and other long term employee benefits	435	410
Post employment benefits	22	14
	<u>457</u>	<u>424</u>

18. Interest in the Joint operations

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

Statement of financial position	KD 000's			
	KJO		WJO	
	2017	2016	2017	2016
Assets				
Property, plant and equipment-Tangible	838,430	889,565	297,505	369,259
Property, plant and equipment-Intangible	6,565	8,362	46,091	6,398
Employees' loans	6,470	6,055	-	-
Inventories	14,189	14,332	9,833	10,074
Accounts receivables and prepayments	8,700	9,961	1,229	1,749
Cash and cash equivalents	5,936	4,442	-	-
	<u>880,290</u>	<u>932,717</u>	<u>354,658</u>	<u>387,480</u>
Liabilities				
Employees' provident fund	9,791	9,450	-	-
Post employment benefits	56,113	58,018	38,561	20,813
Accounts payable and accrued expenses	83,174	93,608	22,164	29,883
	<u>149,078</u>	<u>161,076</u>	<u>60,725</u>	<u>50,696</u>
Net assets	731,212	771,641	293,933	336,784
Statement of comprehensive income				
Expenses for the year	(183,749)	(156,238)	(116,251)	(110,581)
Others				
Proportionate share in joint capital commitments	93,375	87,756	13,288	13,425
Proportionate share in the Joint Operating lease commitments				
Minimum operating lease commitments on non-cancellable leases are:				
			KD 000's	
			2017	2016
Not later than one year			11,465	12,371
Later than one year and not later than five years			5,642	24,985
Later than five years			1,038	1,475
			<u>18,145</u>	<u>38,831</u>

19. Fair value of financial instruments

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

Financial assets- classified as loans and receivables

- Accounts receivable
- Employees' loans
- Cash and cash equivalents

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

- Accounts payable and accruals
- Due to the Parent

Fair value measurement

The Company'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.

20. Risk management

The Company'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 Company 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 Company'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. The significant risks that the Company 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 Company to credit risk, consist principally of current, call and short term bank deposits, advances to contractors and due from related parties. The Company 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 Company and by obtaining bank guarantees for performance of the work.

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

	KD 000's	
	2017	2016
Accounts receivable	856	1,085
Employees' loans	8,253	7,904
Balances with banks	6,441	6,569
	<u>15,550</u>	<u>15,558</u>

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 Company 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 Company manages this risk by setting limits on exposures to currency and transacting business in major currencies.

If as at 31 December 2017, 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 3 thousand (2016: KD 4 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 Company is not exposed to interest rate risk, as there are no interest bearing liabilities as at 31 December 2017

(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 Company has no financial assets exposed to price risk.

c Liquidity risk

Liquidity risk is the risk that the Company 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 Company's funding requirements are fully provided by the Parent.

All financial liabilities of the Company as of 31 December 2017 mature within 12 months. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

21. Capital risk management

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

22. Significant accounting judgments and estimates

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

Impairment of assets

The Company reviews its financial assets classified as "loans and receivables", 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 Company'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 Company 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.

23. Comparatives

Certain prior year amounts have been reclassified to conform with current presentation but with no effect on net profit or shareholder's equity.