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

2018

Annual Report

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KUWAIT GULF OIL COMPANY (K.S.C)
إحدى شركات مؤسسة البترول الكويتية
A Subsidiary of Kuwait Petroleum Corporation
Annual Report 2018
KGOC
KGOC

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

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

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

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Board Members

Fouad Issa Al-Abbasi
Chairman

Bader Ahmad Al-Munaifi
Board Member

Abdulnaser Yousef Alfulaij
Board Member

Fadhel Sayed Abbas
Deputy Chairman

Yousef Ahmad Ali
Board Member

Ahmad A M Al-Hamad
Board Member

Sheikh/ Osamah Salman Al-Sabah
Board Member

Executive Management

Abdulnaser Yousef Alfulaij
Cheif Executive Officer

Abdullah Matar Al-Shammari
Deputy CEO
Finance & Administration Affairs

Saeed Mohammed Al-Shaheen
Deputy CEO
Khafji Joint Operations

Managers

Falah Al-Anezi
Manager Management Support

Bader Al-Harbi
Manager Legal Affairs

NASSER IBRAHIM AL-HOULI
Assets Management (Wafra)

MOHAMMED AL-HAIMER
Manager Exploration

Anwar Al-Sharqawi
Manager Information Technology & Services

Ahmad A. Al-Awadhi
Manager Commercial Affairs

Abdullah Sayed Hashim
Manager Corporate Planning

Nasser Salem Rashid
Assets Management (Khafji)

Faisal Bader Al-Jeri
Manager Financial Services

Abdulaziz Dashti
Manager Risk Management

CEO Speech

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 2018, 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 2018, 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.

Abdullah A. Al-Sumaiti
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 highlights the Company's financial and career position, which includes the activities for maximizing the strategic value of hydrocarbon resources, and the development of oil reserves to ensure sustainability of production considering the standards and measurements related to HSSE, in addition to projects to raise performance level and aspects of social responsibility, as follows:

1. Maximizing the Strategic Value of the Crude Oil:

1.1 Initiated consultancy services contract for subsurface studies titled "Estimation of production profiles for the maximum potential achievable and sustainable production rates for KJO to support KPC 2040 strategy".

1.2 Carried out a technical study to evaluate KJO facilities for achieving 2040 KGOC Strategic Plan. – 100% Completion achieved.

1.3 Under the Strategic Initiative to explore new Oil and Gas at Wafra, velocity modeling and subsurface geological maps were created for Arq area.

1.4 Completed in-house study "Assess Return on Investment (ROI) from recent Appraisal Drilling" to have a clear understanding of the value of the benefits obtained after major Capital spending in the appraisal program for Wafra Joint Operations.

1.5 Completed in-house study "Upgrade Appraisal Prospect Portfolio for Prioritization of Maturation and Drilling" as preparation for the resumption of operations by WJO.

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

2.1 Khafji Gas and Condensate Export System project (KGACES) has been resumed in October 2018.

2.2 In the framework of the Company's efforts to reduce the gas burn rate at Khafji Joint Operations (KJO), 99.4% of the gas associated facilities project has been completed.

2.3 Inspection and maintenance work were conducted for 12" KGOC Eocene Pipeline in cooperation with KOC.

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

3.1 Completed In-house study on Khafji bottom hole pressure analysis for 1st & 2nd Bahrain reservoirs in order to obtain more proof for Oil Migration issue between Khafji and outside of PZ border area in the southern part.

3.2 Completed the Estimation Studies of Oil Migration volume due to shut down.

3.3 Completed in-house study to update Khafji 1st Bahrain reservoir simulation model using Eclipse-100 to obtain updated oil migration volumes during production shutdown.

3.4 Issued contract completion certificate after receiving all deliverables under the contract PZ Onshore 3D Seismic Data Acquisition and Processing in WJO.

3.5 Completed in-house study of the Hartha (Lower Senonian) reservoir in Wafra Field and built the first Geological Model for Hartha Reservoir to Initiate Development Planning.

3.6 Completed in-house study, "History Match Wafra Maastrichtian Reservoir Dynamic Simulation Model" in Wafra.

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

4.1 Oil Spill Response System Study conducted to protect the environment and marine ECO systems.

4.2 Completed workover operations for 24 wells at Khafji Joint Operations to resolve the well integrity and HSSE related issues.

4.3 KGOC Head Office was awarded the RoSPA Gold Award for health and safety performance.

4.4 Developed the Hazard Reporting System.

4.5 An Occupational Health Risk Assessment was carried out at the four temporary buildings of KGOC HO.

4.6 The KPM for HSSE Observation Audit was achieved.

4.7 The HSSE performance dashboard was developed. The dashboard was updated on a monthly basis.

4.8 RoSPA certified Defensive Driving training of KGOC HO was selected as a best practice by PTC, and this year KGOC will send the employees to PTC for training and to provide any support required by PTC.

4.9 Kuwait Bay EISA study completed and approved by KEPA.

4.10 Sludge Mitigation EISA and FEED studies completed and approved by KEPA.

4.11 1100 kg of plastic bottles from KGOC Head Office recycled Omniya Project.

4.12 The environmental impact assessment study has been completed as requested by the General Authority for the Environment, and the engineering design of the sludge treatment project has also been completed.

4.13 As part of the Kuwait Environment Initiative, the Company, in cooperation with the Environment Voluntary Foundation, organized a campaign to clean the beaches of Kuwait and implement diving programs for promoting the preservation of coral reefs, the marine environment and the cleanliness of the beaches.

5. The Excellence in Performance:

5.1 Produce RAROC report for Khafji Field Development Program with PME Additional Fund, as per new CIAP requirement related to KPC's Corporate Planning Guidelines.

5.2 Concluded the group life insurance, work injury and personal accidents contract for KGOC employees in KJO for two years with reduced insurance installment.

5.3 Established a mechanism for linking KGOC's Corporate Risk Register with the QMS Procedures, which enabled the Company to obtain the external auditor's recommendation for ISO 9001: 2015 certification.

5.4 Continued enhancing the communication and cooperation between the Company and the State Audit Bureau.

5.5 Establishing E-System to deliver group health insurance cards along with wide media campaign for registration via the E-System.

5.6 Achieved cost optimization by initiating an internal training for technical staff on reservoir simulation software, enabling them to contribute for strategic projects of KGOC.

5.7 Concluded the assets evaluation contract for 3 years.

5.8 Optimized and utilized the QA/QC resources allocated for the KGACES project based on the resource loading.

5.9 Created a master data base for WJO projects, contracts and service agreements.

5.10 Participated in secondment program held in the Perth Head Office of the Australia business Unit of KUFPEC for 2 months.

5.11 Participated in a six months technical development program with "CGG" in Kuwait from October 2018.

5.12 Developed online system and dashboard with IT team's support to track and improve KGOC Business Performance.

5.13 Developed technical expertise of National Engineers and Geologists (E&FD (W) Team Employees) through training and on job work assignments enabling them to contribute in critical strategic projects for the nation.

6. Social Responsibility:

6.1 Completed the Nuwaiseeb border development project, which was technically completed (Exceptional Items) in 2018 for the public usage.

6.2 Organized several events such as the National Day Carnival in the Martyr Park in cooperation with the Martyr's Office and donated to the Ministry of Health (Blood Bank) a car with special specifications for blood donation.

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A Subsidiary of Kuwait Petroleum Corporation

State of Kuwait

Annual Financial Statements and Independent Auditor's Report

31 December 2018

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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 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

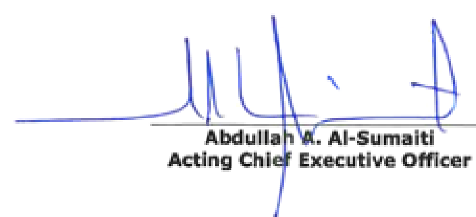
Furthermore, in our opinion, proper books of accounts have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all the information that is required by Companies Law No. 1 of 2016, and its executive regulations 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 2018 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
14 May 2019

ASSETS	Note	KD 000's 2018	KD 000's 2017
Non-current assets			
Property, plant and equipment			
Tangible	3	1,115,568	1,141,490
Intangible	4	45,957	52,656
Accounts receivable and prepayments	5	7,715	5,835
Employees' loans	6	6,381	5,642
		1,175,621	1,205,623
Current assets			
Inventories	7	22,535	24,022
Accounts receivable and prepayments	5	17,836	7,864
Employees' loans	6	3,657	2,611
Cash and cash equivalents	8	7,990	6,441
		52,018	40,938
Total assets		1,227,639	1,246,561
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	9	120,000	120,000
Foreign currency translation reserve		49,455	45,385
Remeasurement of defined benefit obligation		(17,378)	(25,984)
		152,077	139,401
Non current liabilities			
Employees' provident fund	10	10,885	9,791
Post employment benefits	11	147,827	133,062
		158,712	142,853
Current liabilities			
Accounts payable and accruals	12	139,783	123,265
Due to the Parent	13	777,067	841,042
		916,850	964,307
Total shareholder's equity and liabilities		1,227,639	1,246,561

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

Fuad Al-Abbasi
Chairman of the Board



Abdullah A. Al-Sumaiti
Acting Chief Executive Officer

	Note	KD 000's 2018	KD 000's 2017
Operating expenses	14	215,175	216,153
General and administration expenses	15	35,499	39,416
Depreciation and amortization	3 & 4	85,548	83,732
Directors' remuneration	16	49	55
Interest income		(42)	(19)
		336,229	339,337
Costs reimbursable by the Parent	13	(336,229)	(339,337)
Net income		-	-

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

	KD 000's	
	2018	2017
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit obligation	8,606	3,389
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustment	4,070	(11,937)
Total comprehensive income/(expense) for the year	12,676	(8,548)

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

	KD 000's			
	Share capital	**Foreign currency translation reserve**	**Remeasurement of defined benefit obligation**	**Total**
Balance at 31 December 2017	120,000	45,385	(25,984)	139,401
Total comprehensive income for the year	-	4,070	8,606	12,676
Balance at 31 December 2018	120,000	49,455	(17,378)	152,077
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

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

	Note	KD 000's 2018	2017
Cash flows from operating activities			
Depreciation and amortization	3 & 4	85,548	83,732
Loss on disposal of property, plant & equipment		1,712	67
Assets under construction charged to expenditure	3	2,506	-
Operating cash before working capital changes		89,766	83,799
Employee loans		(1,785)	(349)
Inventories		1,487	1,719
Accounts receivable and prepayments		(11,852)	(207)
Due to the Parent		(63,975)	(108,906)
Employees' provident fund		1,094	341
Post employment benefits		24,331	42,837
Accounts payable and accruals		16,518	(7,080)
Net cash from operating activities		55,584	12,154
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(50,466)	(12,572)
Net cash used in investing activities		(50,466)	(12,572)
Net increase/(decrease) in cash and cash equivalents		5,118	(418)
Adjustment for foreign exchange rates		(3,569)	290
Cash and cash equivalents - at beginning of year		6,441	6,569
Cash and cash equivalents - at end of year	8	7,990	6,441

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.

On 1 March 2018, 100% ownership of the Kuwait Petroleum Corporation (Western Hemisphere) – K.S.C (Closed) was transferred from the Ultimate Parent to Kuwait Gulf Oil Company. Accordingly, Kuwait Petroleum Corporation (Western Hemisphere) – K.S.C (Closed) is a subsidiary of the Parent Company. The main activity of the subsidiary is purchasing products from Kuwait National Petroleum Company and marketing them in the Western Hemisphere, West and East Coasts of United States of America.

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

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

Khafji Joint Operations (KJO)

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

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

Wafra Joint Operations (WJO)

In accordance with 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 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 14 May 2019 and are subject to approval of the Shareholder at the Ordinary General Assembly.

Notes to the Financial Statements –
31 December 2018

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.

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 2018 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 2019 and the Parent Company believes that WJO will approve its budget for 2019. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

These consolidated financial statements has been prepared using the management accounts of KJO as of 31 December 2018, pending issue of their audited financial statements as of that date. The Group believes that no material changes are likely to arise on issue of the audited financial statements of KJO for the year ended 31 December 2018.

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 22.

Changes in accounting policies

New and amended IFRSs that are effective from 1 January 2018

The accounting policies used in the preparation of this consolidated financial statements are consistent with those used in the previous year except for the adoption of IFRS 9: Financial Instruments ("IFRS 9") effective from 1 January 2018. The changes in the accounting policies and their impact on the consolidated financial statements arising from the adoption of these standards are explained below.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on the accounting policies, consolidated financial position or performance of the Group.

Financial Instruments

The Group has adopted IFRS 9: Financial Instruments issued in July 2014, with a date of initial application of I January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 brings fundamental changes to the accounting for financial instruments: classification and measurement, impairment and hedge accounting and certain aspects of the accounting for financial liabilities. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group's accounting policies on financial instruments resulting from the adoption of IFRS 9 are summarized below.

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 market place.

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 comprehensive income.

Classification and measurement of financial assets and financial liabilities

Financial Assets

The Group determines classification and measurement category of financial assets based on a combination of the entity's business model for managing the assets and the instrument's contractual cash flow characteristics except equity instruments and derivatives.

The business model assessment:

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Company's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Contractual cash flow assessment

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cashflows and to sell the financial instrument, the Group assesses whether the financial instrument's cash flows represent Solely Payments of Principal and Interest (the 'SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of 'interest' within a basic lending arrangement are typically the consideration for the time value of money, credit risk, other basic lending risks and interest margin. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

The Group reclassifies a financial asset only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Financial assets are classified into following categories under IFRS 9:

- Amortised cost (AC)
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value Through Profit and Loss (FVTPL)

Amortised cost (AC)

The Group classifies financial assets at AC if it meets both of the following conditions and is not designated as at FVTPL:

The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial assets classified at AC are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains/losses and impairment are recognised in the statement of comprehensive income. Any gain or loss on derecognition is recognised in the statement of comprehensive income.

Fair Value through Other Comprehensive Income (FVOCI)

Debt instruments at FVOCI

The Group classifies debt instruments at FVOCI if it meets both of the following conditions:-

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Debt instrument classified as FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income ("OCI"). Interest income and foreign exchange gains and losses are recognised in consolidated statement of comprehensive income. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to consolidated statement of comprehensive income.

Equity instruments at FVOCI

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation, and are not held for trading. Such classification is determined on an instrument-by- instrument basis.

Equity instruments at FVOCI are subsequently measured at their fair value. Changes in fair values including foreign exchange gains and losses are recognised in OCI. Dividends are recognised in consolidated statement of comprehensive income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. On derecognition, cumulative gains or losses are reclassified from OCI to retained earnings in the consolidated statement of changes in equity.

Fair Value Through Profit and Loss (FVTPL)

Financial assets whose business model is to acquire and sell, or whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, are classified as FVTPL.

In addition to the above, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets classified as FVTPL are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the consolidated statement of comprehensive income. Interest income and dividends are recognised in the consolidated statement of comprehensive income according to the terms of the contract, or when the right to payment has been established.

Financial liabilities

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from Group's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the consolidated statement of comprehensive income.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'Expected Credit Loss' (ECL) model. The expected credit loss of a financial instrument is measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating range of possible outcomes; the time value of money; and past events, current conditions and forecast of future economic conditions. The ECL model applies to all financial instruments except investments in equity instruments. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

IFRS 9 introduces three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition, or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired. When determining whether the credit risk on a financial instrument has increased significantly, management considers reasonable and supportable information available, in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument.

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Stage 3: Lifetime ECL – credit impaired.

A financial asset is considered as credit impaired when there is objective evidence that the amount due under the financial asset is uncollectible. The Group considers a financial asset as credit impaired if the amount due under the financial instrument is overdue by more than 90 days, or if it is known that the counter party has any known difficulties in payment, or the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. Lifetime ECL are recognized as the difference between the financial asset's gross carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation.

The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

Hedge Accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Policy applicable before 1 January 2018

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.

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.

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.

Transition to IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 are to be applied with effect from 1 January 2018, using the modified retrospective method and accordingly the comparative periods have not been restated. Differences in the carrying amounts of assets and liabilities, if any, resulting from the adoption of IFRS 9 are to be recognised in opening retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable.

Adoption of IFRS 9 resulted in change in classification of all financial assets from "loans and receivables" to "amortised cost". The management has assessed that the impact of the application of IFRS 9 as of 1 January 2018 for financial assets is not significant to the financial statements and therefore, no adjustments were made to the financial assets, financial liabilities and retained earnings as of 1 January 2018.

New and revised IASB Standards, but not yet effective

Standards and interpretations issued but not yet effective are listed below. The Group intends to adopt these when they become effective:

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 Group is continuing to analyse the impact of the changes and its impact will be disclosed in the consolidated financial statements as of 31 December 2019 that includes the effects of it application from the effective date.

2.2 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 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 Group 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 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.

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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.

2.3 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 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.

2.4 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.

2.5 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.

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.

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.

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.

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.

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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 consolidated statement of comprehensive income on a straight line basis over the period of the lease.

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.

Revenue recognition

Interest income is recognised using the effective yield method.

3. Property, plant and equipment – Tangible

	KD 000's										
	Plant	Buildings	Structures	Wells (Non-exploratory)	Wells (exploratory)	Pipelines, equipment & machinery	Furniture & tools	Ships & vehicles	Computer & Comm. equipment	Construction in progress	Total
Cost											
At 1 January 2018	180,101	87,116	109,663	792,067	63,147	763,684	10,841	5,412	23,981	175,465	2,211,477
Additions	-	-	-	-	-	-	63	-	-	50,403	50,466
Transfers	7,213	9	11,748	5,716	-	27,354	76	56	216	(52,388)	-
Disposals	-	(27)	-	-	-	(2,118)	(25)	(85)	(192)	-	(2,447)
Charged to expenditure	-	-	-	-	-	-	-	-	-	(2,506)	(2,506)
Exchange adjustment	-	503	723	2,891	377	5,485	74	31	116	244	10,444
At 31 December 2018	187,314	87,601	122,134	800,674	63,524	794,405	11,029	5,414	24,121	171,218	2,267,434
Accumulated Depreciation											
At 1 January 2018	108,326	33,784	35,014	509,511	29,697	322,252	10,031	4,533	16,839	-	1,069,987
Charge for the year	3,777	3,348	4,207	37,779	3,638	23,462	530	270	1,810	-	78,821
Disposals	-	(27)	-	-	-	(405)	(25)	(85)	(193)	-	(735)
Exchange adjustment	-	262	234	1,338	199	1,558	106	27	69	-	3,793
At 31 December 2018	112,103	37,367	39,455	548,628	33,534	346,867	10,642	4,745	18,525	-	1,151,866
Net book value											
At 31 December 2018	75,211	50,234	82,679	252,046	29,990	447,538	387	669	5,596	171,218	1,115,568
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

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

	KD 000's										
	Plant	Buildings	Structures	Wells (Non-exploratory)	Wells (exploratory)	Pipelines, equipment & machinery	Furniture & tools	Ships & vehicles	Computer & Comm. equipment	Construction in progress	Total
Cost											
At 1 January 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

4. Property, plant and equipment - Intangible

	KD 000's		
	Seismic surveys	Others	Total
Cost			
At 1 January 2017	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
Exchange adjustment	107	34	141
At 31 December 2018	60,482	20,725	81,207
Accumulated amortization			
At 1 January 2017	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
Amortized during the year	4,815	1,912	6,727
Exchange adjustment	81	32	113
At 31 December 2018	22,538	12,712	35,250
Net book value			
At 31 December 2018	37,944	8,013	45,957
At 31 December 2017	42,733	9,923	52,656

5. Accounts receivable and prepayments

	KD 000's	
	2018	2017
Non-current		
Prepayments	7,715	5,835
Current		
Accounts receivable	1,034	856
Prepayments	16,802	7,008
	17,836	7,864
	25,551	13,699

Accounts receivable represents KD 1,034 thousand due from the joint operation partner (2017: KD 856 thousand).

Accounts receivable and prepayments include KD 22,212 thousand denominated in US Dollars (31 December 2017: KD 9,557 thousand).

6. Employees' loans

	KD 000's	
	2018	2017
Non-current	6,381	5,642
Current	3,657	2,611
	10,038	8,253

Employee loans consist of interest free home loans and other loans extended to employees of the joint operation and the Group. Home loans amounting to KD 7,046 thousand (2017: KD 6,119 thousand) are secured on the property for which the loan is granted. These are repaid over a maximum period of 15 years from the last draw down date and monthly repayments are 20% of the employee's basic salary.

Of the above, KD 7,373 thousand is due in US Dollars (31 December 2017: KD 6,471 thousand).

7. Inventories

	KD 000's	
	2018	2017
Materials and supplies	33,876	33,351
Provision for obsolete and slow-moving items	(11,341)	(9,329)
	22,535	24,022

8. Cash and cash equivalents

	KD 000's	
	2018	2017
Cash at banks	6,752	5,321
Term deposits	1,238	1,120
	7,990	6,441

Cash at banks includes KD 2.82 million (2017: KD 2.53 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 2017: 120,000,000 shares of KD 1 each).

10. Employees' provident fund

	KD 000's	
	2018	2017
Savings scheme	4,041	3,811
Investment scheme	1,280	1,080
Reward scheme	5,564	4,900
	10,885	9,791

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

11. Post employment benefits

	KD 000's				
	2018				2017
	Regular	Special	Early/others	Total	Total
At 1 January	121,039	11,940	83	133,062	94,436
Exchange adjustment	(715)	(195)	(50)	(960)	(822)
Net movements during the year	23,325	1,006	-	24,331	42,837
Actuarial valuation gain	(6,587)	(1,889)	(130)	(8,606)	(3,389)
At 31 December	137,062	10,862	(97)	147,827	133,062

The Group 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:-

- 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.

12. Accounts payable and accruals

	KD 000's	
	2018	2017
Accounts payable	51,528	51,732
Accrued expenses	76,691	60,731
Other payables	11,564	10,802
	139,783	123,265

Accrued expenses include KD 1,337 thousand (31 December 2017: KD 1,807 thousand) payable to a related party.

Accounts payable and accruals include KD 96,906 thousand denominated in US Dollars (31 December 2017: KD 79,236 thousand).

13. Due to the Parent

	KD 000's	
	2018	2017
Balance at 1 January	841,042	949,948
Funds received during the year	272,254	230,431
Costs reimbursable by the Parent	(336,229)	(339,337)
Balance at 31 December	777,067	841,042

14. Operating expenses

	KD 000's	
	2018	2017
Contracts	55,752	44,033
Staff costs	154,393	158,440
Operating lease rental	5,030	4,509
Well abandonment expenses	-	9,171
	215,175	216,153

15. General and administration expenses

	KD 000's	
	2018	2017
Staff costs	23,165	23,702
Training	914	915
Others	11,420	14,799
	35,499	39,416

16. Directors' remuneration

Provision made in the consolidated 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 Group has entered into transactions with related parties on terms approved by management. Balances and transactions with related parties not disclosed elsewhere is these consolidated financial statements are as follows:

Expenses for the year include KD 7,141 thousand (2017: KD 6,254 thousand) charged by related parties for providing administration and other support services.

Key management compensation

	KD 000's	
	2018	2017
Salaries and other long term employee benefits	462	435
Post employment benefits	133	171
	595	606

18. 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	KD 000's		KD 000's	
	KJO		WJO	
	2018	2017	2018	2017
Assets				
Property, plant and equipment-Tangible	835,483	838,430	268,201	297,505
Property, plant and equipment-Intangible	5,042	6,565	40,915	46,091
Employees' loans	7,374	6,470	-	-
Inventories	13,401	14,189	9,134	9,833
Accounts receivables and prepayments	21,178	8,700	1,152	1,229
Cash and cash equivalents	7,015	5,936	-	-
	889,493	880,290	319,402	354,658
Liabilities				
Employees' provident fund	10,885	9,791	-	-
Post employment benefits	88,621	77,240	40,215	38,561
Accounts payable and accrued expenses	85,488	83,174	24,161	22,164
	184,994	170,205	64,376	60,725
Net assets	704,499	710,085	255,026	293,933
Consolidated Statement of comprehensive income				
Expenses for the year	(199,139)	(183,749)	(107,322)	(116,251)
Others				
Proportionate share in joint capital commitments	125,434	93,375	3	13,288

Proportionate share in the Joint Operating lease commitments

Minimum operating lease commitments on non-cancellable leases are:

	KD 000's	
	2018	2017
Not later than one year	9,471	11,465
Later than one year and not later than five years	2,436	5,642
Later than five years	725	1,038
	12,632	18,145

19. 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

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 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.

20. 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. 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 short term bank 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:

	KD 000's	
	2018	2017
Accounts receivable	1,034	856
Employees' loans	10,038	8,253
Balances with banks	7,990	6,441
	19,062	15,550

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

(b) Market risk

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

(i) *Foreign currency risk*

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign currency rates. The Group is primarily exposed to foreign currency risk as a result of gains/losses on translation of foreign currency denominated assets and liabilities such as accounts receivable and accounts payable. The Group manages this risk by setting limits on exposures to currency and transacting business in major currencies.

If as at 31 December 2018, 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 (2017: KD 3 thousand), mainly as a result of foreign exchange gains on translation of US Dollar denominated assets and liabilities.

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

(ii) Interest rate risk

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

The Group's exposure to interest rate risk is not material as at 31 December 2018.

(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.

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 Parent.

All financial liabilities of the Group as of 31 December 2018 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 Group is not exposed to capital risk, since the Parent is committed to provide all funding requirements of the Group.

22. 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 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 financial statements are the following:

Impairment of assets

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

Useful lives of property, plant and equipment and intangible assets

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

Defined benefit plan obligation

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