

الشركة الكويتية لنفط الخليج (ش.م.ك)
Kuwait Gulf Oil Company (K.S.C)



We care about
Environment

Promising
Future

Annual Report
2016

الشركة الكويتية لنفط الخليج (ش.م.ك.)
Kuwait Gulf Oil Company (K.S.C)

Annual Report 2016



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



Minister of Oil, Minister of Electricity & Water
His Excellency
Mr. Issam Abdulmohsen Almarzooq



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Board
Members



Mr. Mohamed S. Abdul Wahab
Chairman



Ali Sabt Bin Sabt
Deputy Chairman



Abdulnaser Yousef Al-Fulaij
Board Member - Chief
Executive Officer



Fadhel Sayed Abbas
Board Member



Sheikh/ Osamah Salman Al-Sabah
Board Member



Ahmad A M Al-Hamad
Board Member



Qasem Ali Almajadi
Board Member



Executive
Management



Abdunaser Yousef Al-Fulaij
Chief Executive Officer



Mahmoud Abdullah Abul
Deputy CEO Finance &
Administration Affairs



Saeed Mohammed Al-Shaheen
Deputy CEO Planning
& Services

Top Management



Bader S. Al-Harbi
Manager,
Legal Affairs



MOHAMMAD AL-HAMDAN
ASSETS MANAGEMENT
(KHAFJI)



Faisal Bader Al-Jeri
Manager,
Human Resources



Nasser Al-Houli
Manager Information
Technology & Services



Homoud B. Al-Otaibi
Chairman KJO Operating
Committee



Falah A. Al-Anezi
Manager,
Management Support



Abdulaziz M. Dashti
Manager,
Risk Management



Helal M. Al-Mutairi
Manager,
Financial Services



GHANEM AL-HASAWI
Assets Management
(Wafra)



Ahmad A. Al-Awadhi
Manager Commercial Affairs
& Public Relations



The Speech of the CEO

It is a great pleasure, on behalf of myself, colleagues in senior management and all staff's, to present the KGOC's Annual Report that includes its significant achievements, works and activities for the financial year ended on 31st December 2016, in addition to the External Auditor's report on the Company's financial statements.

At the beginning, we would like to indicate that during 2016, the Company in coordination with MOI & KPC continued its efforts with the partners in KJO & WJO to discuss the plans and steps needed to resume the separated productions in 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, and string forward to achieve the strategic objectives of KPC through new explorations, development of oilfields, and carry out projects aimed to improve oil and gas extraction following the best standards and systems of HSE.

Regarding enhancement of our national staff's skills, the Company is working hard to develop the national technical expertise in the engineering and geological fields through training programs that will raise the performance rates and thereby to achieve the highest grades of production quality. Also, the Company cooperation with the KPC's subsidiaries, has shared experiences and modern technologies in all fields through share the best practices, conducting workshops, and holding coordination meetings to identify risks and ways to avoid them.

This report highlights the Company's financial and career position, which includes the affairs of 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.

Finally, on behalf of myself, Colleagues in Senior Management and all Staff's, wanted to express my



sincere thanks and appreciation to all the KGOC employees in variety positions for their dedication and enthusiasm which had contributed to a great extent of achieving the Company's goals.

It is my pleasure to thank the Chairman and all Board members for their valuable effort. Well as their contributions and effective role in achieving the Company's objectives and strategy, (and their great cooperation, recommendations and suggestions to improve the quality of our work and raise the level of our Company).

It 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 is our capability in fostering the Company's value and our 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 objectives.

To conclude, I would like to extend my gratitude and thanks to HH the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, and 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 provide them success and right oneness, to move forward with our dear homeland on the path of progress and prosperity.

Abdunaser Y. Alfulaj
Chief Executive Officer



Our Mission and 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



1. Maximizing the Strategic Value of the Crude Oil:

To maintain the integrity of the Company's assets, the Cathodic Protection System of the 16-inch Eocene line from Wafra to Mina Abdullah Refinery has been implemented and operated.

Workover operations for 97 wells in WJO & KJO, and 1800 operations to maintain and secure wells in WJO have been conducted to protect the wells from erosion and worked on their readiness in case of resuming the production.

Achieving 17.76% of "Al-Hout Crude Transportation New Line Installation Project" in KJO. A triparty agreement is being implemented for the remaining works, on which all engineering works have been completed. Contracts tenders for the remaining works are expected to be floated (to contractors) in Q2 of 2017.

The drilling of (K-315H) Development Well has fully completed in Khafji Field by Q4 of 2016, to increase production from Bahrain 1st Sandy Reservoir (B1).

The optimal method in drilling and production through evaluation and review of the performance of Bahrain 1st Sandy Reservoir (B1) and Bahrain 2nd Sandy Reservoir (B2) in Khafji Field, to increase the production efficiency and to reduce drilling days.

{Completion of "Development of Al-Hout Crude's Onshore Facilities" Project in KJO Area, as the preparation activities for operations are being implemented to increase the capacity of Al-Hout crude's onshore facilities}.

2. The Optimal Utilization of the Potential Value of Gas

For the optimal utilization of associated gas and to reduce gas flaring, 95% of Phase III "The Engineering Studies" for the 2nd Project of reducing gas flaring in WJO has completed in Q1 2017 with KOC cooperation. The actual operation of the Project is expected to be in 2019, through which gas flaring rate can be reduced to 40%, compared to 55% in 2014.

83% of the pipeline project to transport Kuwait's share of gas from KJO to Ahmadi Refinery has been achieved, with a capacity of 40 MCFPD and 6,600 BPD of liquefied gas. The Project is expected to be completed during Q3 of 2018.

Achieved 94.3% of "Associated Gas of Al-Hout Crude" Project, including offshore and onshore facilities to treat the acid associated gas of Al-Hout Crude and to achieve 1% gas flaring rate plan of the company.

The Development of Oil Reserves to Ensure the Productions Sustainability:

As a part of the Company's efforts to develop oil reserves, the 1st 3D geological simulation model of the Maastrichtian reservoir was established in Wafra Field.

To achieve Company's efforts for the optimal exploration of the Onshore Divided Zone of WJO between the State of Kuwait and Kingdom of Saudi Arabia, the recording of 3D Seismic Survey data has completed for the entire mentioned area, which is the 5th largest seismic survey of its kind in the world.

4. HSSE:

To develop, Manage HSSE system and managing safety and environment comply the laws with requirements of the Environment Public Authority and environmental regulations and standards, KGOC has arranged awareness lectures,



• A side of the soil reclamation after cleaning the oil pits in WJO

workshops and training courses are scribed under the approved international standards and programs NEBOSH and IOSH, to manage the safety and work quality within the Company

Completion of (New Lining Oil Pits Project has been completed in WJO, which aims to reduce the environmental impact of the production operations). As a part of the appraisal study of

The Company's Achievements



the environmental impact of the Seismic Survey Project of the offshore area of the Divided Zone, WJO intends to conduct a seismic survey in this area to develop the existing reservoirs and to explore new oil and gas reservoirs.

The launch of "Roots" Campaign with the participation of the Company's 'employees' and 'contractors' to improve the principles and basics of their life, benefit from daily activities, reduce the risks they face, and continue to achieve HSSE'S standards.

In order to benefit from career expertise, among KPC and its subsidiaries, the Company has changed. Some of its employees specialized in fields of HSSE to the associate oil companies to benefit from the expertise of those employees who worked with their counterparts in Saudi Arabian Chevron and Aramco Gulf Operations company.

The formation of the Central Health, Safety and Environment Committee (CHSEC) has been formed for reminding the Company's strategy in this field, and to establish a communication network to meet the Company's needs to spread culture and awareness in the field of HSSE.

As a part of the Company's quality standards management, 18 internal procedures were completed and a plan has been prepared for the official launch of the HSSE Management System, as well as to implement 339 HS SE audits, and the launch of the Electronic Hazard Reporting System in November 2016.

In order to maintain all tanks and transporting lines, the Company has completed the process to discharge the oil of the Main Gathering Center tanks of WJO, scavenging and discharge the pipeline of KGOC.

5. The Excellence in Performance:

In continuation of the Company's efforts to comply with the requirements and specifications of ISO 2009: 2008, prepared and documented the improvements to be made to 280 procedures of work systems of all departments of the Company's H.O. from January to December 2016 based on the requirements of ISO 9001: 2008. The internal and external audits of the Company's H.O were completed and a certificate was issued by the donor agency confirming the Company's compliance to the requirements and specifications of ISO.

Contribution to EMTAZ Program for exclusive prices in cooperation with KPC.

The Company has obtained an excellent evaluation according to KPC's evaluation criteria of funds expenditure through the completion of cash flow orders and expenditure to pay invoices with a high accuracy of 100%, in which the requested amounts were not more or less than the invoices' cost.

As a part of the Company's efforts by improving the job satisfaction level through (to raise the level of performance and productivity of the work), the Company has launched a "Thank You Card" initiative for the Head office's distinguished employees to honor them and appreciate their efforts.

Through optical fiber network, electronic link was established between KGOC and the State's government institutions to facilitate the completion of tasks through KWAN (The communication network among KPC and its subsidiaries) and CAIT (The communication network among government institutions).

The company if following CORPORATE KNOWLEDGE MANAGEMENT (CKM) Mechanism (To respond to all queries from users of KGOC) through subject matter experts experienced employees (SMEs).

Creation of E-Supplier Portal in Oracle Fusion, which provided an access to a secure and integrated work area, and an accurate vision of operations through instant access to the latest information.

Creation of I-Share Technology, an initiative to exchange knowledge among employees of Financial Services Group. It publishes information about international financial standards and reports for review.

6. Social Responsibility

To establish the principles of Social Responsibility, and commitment to enhance the values of corporate loyalty, KGOC's played a positive role in supporting many of the organizations and bodies of the State. Such support results in achievement of Nuwaiseeb Land Port Project in Q4 of 2016 to facilitate the border crossing of employees in KJO, trucks and travelers.

To contribute for the corporate services in the State, the Company has initiate many donation activities for some hospitals of the Ministry of Health, such as the purchase of 100 Asthma Vaporization systems for the Ministry of Health, developed health care operating system, and a ward in Ibn Sina Hospital.

Contribution to the training of Kuwait University students (Petroleum Engineering) through a special and effective training program that will prepare them for their career growth.

Contribution to the activities of The National Anti-Drugs Media Project "Grass".



Financial Report

الشركة الكويتية لنفط الخليج (ش.م.ك)
Kuwait Gulf Oil Company (K.S.C)

State of Kuwait

Annual Financial Statements and Independent Auditor's Report

31 December 2016

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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 2016, 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 2016, 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 2016 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, 20 April 2017

Statement of Financial Position as of 31 December 2016

	Note	KD 000's	
		2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment			
Tangible	3	1,263,662	1,283,857
Intangible	4	14,760	15,844
Accounts receivable and prepayments	5	6,300	6,987
Employees' loans	6	5,383	4,405
		<u>1,290,105</u>	<u>1,311,093</u>
Current assets			
Inventories	7	25,741	29,506
Accounts receivable and prepayments	5	7,192	10,477
Employees' loans	6	2,521	1,456
Cash and cash equivalents	8	6,569	4,511
		<u>42,023</u>	<u>45,950</u>
Total assets		<u>1,332,128</u>	<u>1,357,043</u>
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	9	120,000	120,000
Foreign currency translation reserve		57,322	51,012
Remeasurement of defined benefit obligation		(29,373)	(26,282)
		<u>147,949</u>	<u>144,730</u>
Non current liabilities			
Employees' provident fund	10	9,450	8,393
Post employment benefits	11	94,436	88,215
		<u>103,886</u>	<u>96,608</u>
Current liabilities			
Accounts payable and accruals	12	130,345	164,525
Due to the Parent	13	949,948	951,180
		<u>1,080,293</u>	<u>1,115,705</u>
Total shareholder's equity and liabilities		<u>1,332,128</u>	<u>1,357,043</u>

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



Mohammad Sayed Abdulwahab
Chairman of the Board



Abdunaser Y. Alfulaj
Chief Executive Officer (CEO)

Statement of Income – Year ended 31 December 2016

	Note	KD 000's	
		2016	2015
Operating expenses	14	184,791	220,752
General and administration expenses	15	25,476	21,994
Depreciation and amortization	3 & 4	82,618	72,254
Directors' remuneration	16	65	60
Interest income		(7)	(5)
Other income		(164)	(17,020)
		<u>292,779</u>	<u>298,035</u>
Costs reimbursable by the Parent	13	(292,779)	(298,035)
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 2016

	KD 000's	
	2016	2015
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit obligation	3,091	1,961
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustment	(6,310)	(26,933)
Total comprehensive income for the year	(3,219)	(24,972)

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

Statement of Changes in Equity – Year ended 31 December 2016

	KD 000's			
	Share capital	Foreign currency translation reserve	Remeasurement of defined benefit obligation	Total
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
Balance at 31 December 2014	120,000	24,079	(24,321)	119,758
Total comprehensive income/(expense) for the year	-	26,933	(1,961)	24,972
Balance at 31 December 2015	120,000	51,012	(26,282)	144,730

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

	Note	KD 000's	
		2016	2015
Cash flows from operating activities			
Depreciation and amortization	3 & 4	82,618	72,254
Loss on disposal of property, plant & equipment	4	230	230
Assets under construction charged to expenditure		1,237	3,286
(Gain)/loss from foreign currency revaluation		(7)	96
Operating cash before working capital changes		83,852	75,866
Increase in employee loans		(2,043)	(1,351)
Decrease in inventories		3,765	1,744
Decrease in accounts receivable and prepayments		3,972	5,285
(Decrease)/increase in due to the Parent		(1,232)	63,715
Increase in employees' provident fund		1,057	1,163
Increase in post employment benefits		6,221	2,570
Decrease in accounts payable and accruals		(34,180)	(6,479)
Net cash from operating activities		61,412	142,513
Cash flows from investing activities			
Purchase of property, plant and equipment		(50,524)	(137,060)
Net cash used in investing activities		(50,524)	(137,060)
Net increase in cash and cash equivalents			
		10,888	5,453
Adjustment for foreign exchange rates			
Cash and cash equivalents - at beginning of year		(8,830)	(6,140)
Cash and cash equivalents - at end of year		4,511	5,198
النقد والنقد المعادل - في نهاية السنة	8	6,569	4,511

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 divided area 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 (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.

On 1 February 2016, the new Companies Law No.1 of 2016 was published in the Official Gazette which is effective from 26 November 2012. According to the new law, the Companies law No. 25 of 2012 and its amendments have been cancelled. On 17 July 2016, the new executive regulations for the Companies Law No. 1 of 2016 were issued which cancelled the executive regulations of Companies Law No. 25 of 2012 which were in force until then.

These financial statements were authorized for issue by the Board of Directors on 20 April 2017 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 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 2016 pending instructions from Khafji Joint participants.

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

Both KJO and WJO are expected to continue their business, as their managements have been instructed to continue with all drilling, maintenance operations and capital investment activities. Furthermore, both the Khafji and Wafra Joint Participants have been funding the activities based on cash calls. KJO has approved its budget for 2017 and the Company believes that WJO will approve its budget for 2017. 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 2016, 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 2016.

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 2016 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 2016 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 IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for an-

nual periods beginning on or after 1 January 2018 with an option to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Company's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The new standard introduces an 'expected credit loss' model for the measurement of the impairment of financial assets. The Company is in the process of quantifying the impact of this standard on the annual financial statements, when adopted.

IFRS 16: Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right- of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of income.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Company does not anticipate early adopting IFRS 16 and is in the process of evaluating the effect of IFRS 16 on the Company and do not expect any significant impact on adoption of this standard.

Amendments to IAS 7: Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Company is currently evaluating the impact.

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.

2. Property, plant and equipment – Tangible

Cost	KD 000's										
	Plant	Build-ings	Struct-ures	Wells (Non-explor-atory)	Wells (explor-atory)	Pipelines, equip-ment & machinery	Furni-ture & tools	Ships & ve-hicles	Com-puter & Comm. equip-ment	Con-struction in prog-ress	Total
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

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

Cost	KD 000's										
	Plant	Build-ings	Struct-ures	Wells (Non-explor-atory)	Wells (explor-atory)	Pipelines, equip-ment & machinery	Furni-ture & tools	Ships & ve-hicles	Com-puter & Comm. equip-ment	Con-struction in prog-ress	Total
At 1 January 2015	153,942	65,323	65,434	662,736	51,171	502,319	8,849	4,675	17,569	488,916	2,020,934
Additions	-	-	10	-	-	148	277	-	-	136,625	137,060
Transfers	14,684	4,922	10,954	53,106	10,526	121,623	290	31	1,760	(217,896)	-
Charged to expenditure	-	-	-	-	-	-	-	-	-	(3,286)	(3,286)
Transfer to Intangible	-	-	-	-	-	-	-	-	-	(710)	(710)
Disposals	-	(961)	(125)	-	-	(296)	(62)	(65)	(5)	-	(1,515)
Exchange adjustment	-	1,830	2,534	13,983	2,011	17,139	317	161	526	11,065	49,566
At 31 December 2015	168,625	71,114	78,807	729,825	63,708	640,933	9,671	4,802	19,850	414,714	2,202,049
Accumulated Depreciation											
At 1 January 2015	96,804	24,531	24,143	387,509	18,711	257,261	7,472	3,714	10,948	-	831,093
Charge for the year	4,286	2,566	2,478	38,430	3,151	15,342	1,202	221	1,793	-	69,469
Disposals	-	(748)	(125)	-	-	(285)	(55)	(65)	(5)	-	(1,284)
Exchange adjustment	-	688	912	7,432	728	8,430	281	129	314	-	18,914
At 31 December 2015	101,089	27,037	27,408	433,371	22,590	280,748	8,900	3,999	13,050	-	918,192
Net book value											
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
At 31 December 2014	57,138	40,792	41,291	275,227	32,460	245,058	1,377	961	6,621	488,916	1,189,841

4. Property, plant and equipment - Intangible

	KD 000's		
	Seismic surveys	Others	Total
Cost			
At 1 January 2015	22,366	12,974	35,340
Transfer from asset under construction	-	710	710
Exchange adjustment	635	176	811
At 31 December 2015	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
Accumulated amortization and impairment losses			
At 1 January 2015	11,585	6,201	17,786
Amortized during the year	1,542	1,243	2,785
Exchange adjustment	311	135	446
At 31 December 2015	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
Net book value			
At 31 December 2016	8,628	6,132	14,760
At 31 December 2015	9,563	6,281	15,844

5. Accounts receivable and prepayments

	KD 000's	
	2016	2015
Non-current		
Prepayments	6,300	6,987
Current		
Accounts receivable	1,085	4,553
Prepayments	6,107	5,924
	7,192	10,477
	13,492	17,464

Accounts receivable represents KD 1,085 thousand due from a joint operation partner (2015: KD 4,553 thousand).

Accounts receivable and prepayments include KD 11,045 thousand denominated in US Dollars (31 December 2015: KD 12,381 thousand).

6. Employees' loans

	KD 000's	
	2016	2015
Non-current	5,383	4,405
Current	2,521	1,456
	7,904	5,861

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 5,605 thousand (2015: KD 4,573 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 6,054 thousand is due in US Dollars (31 December 2015: KD 5,049 thousand).

7. Inventories

	KD 000's	
	2016	2015
Materials and supplies	34,697	36,107
Provision for obsolete and slow-moving items	(8,956)	(6,601)
	25,741	29,506

8. Cash and cash equivalents

	KD 000's	
	2016	2015
Cash on hand and at bank	6,569	4,511

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 2015: 120,000,000 shares of KD 1 each).

10. Employees' provident fund

	KD 000's	
	2016	2015
Savings scheme	3,745	3,267
Investment scheme	1,095	893
Reward scheme	4,610	4,233
	9,450	8,393

11. Post employment benefits

	KD 000's				2015
	2016			Total	
	Regular	Special	Early/ others	Total	Total
At 1 January	76,680	10,949	586	88,215	85,645
Exchange adjustment	359	42	24	425	1,687
Net movements during the year	2,376	608	(16)	2,968	(1,078)
Actuarial valuation loss	2,346	706	(224)	2,828	1,961
At 31 December	81,761	12,305	370	94,436	88,215

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:-

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	
	2016	2015
Accounts payable	58,837	62,546
Accrued expenses	60,630	90,376
Other payables	10,878	11,603
	130,345	164,525

Accrued expenses include KD 2,690 thousand (31 December 2015: KD 300 thousand) payable to a related party.

Accounts payable and accruals include KD 101,013 thousand denominated in US Dollars (31 December 2015: KD 109,869 thousand).

13. Due to the Parent

	KD 000's	
	2016	2015
Balance at 1 January	951,180	887,465
Funds received during the year	291,622	361,757
Costs reimbursable by the Parent	(292,779)	(298,035)
Other movements	(75)	(7)
Balance at 31 December	949,948	951,180

14. Operating expenses

	KD 000's	
	2016	2015
Contracts	59,968	87,654
Staff costs	121,547	122,919
Operating lease rental	2,263	7,575
Well abandonment expenses	1,013	2,604
	184,791	220,752

15. General and administration expenses

	KD 000's	
	2016	2015
Staff costs	17,413	14,497
Training	379	975
Others	7,684	6,522
	25,476	21,994

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 7,094 thousand (2015: KD 17,722 thousand) charged by related parties for providing administration and other support services.

Key management compensation

	KD 000's	
	2016	2015
Salaries and other long term employee benefits	410	496
Post employment benefits	14	60
	424	556

18. Interest in the Joint operations

The financial statements include the following items that represent the Company's 50% interest in the Joint Operations.

Statement of financial position	KD 000's			
	KJO		WJO	
	2016	2015	2016	2015
Assets				
Property, plant and equipment-Tangible	889,565	889,381	369,259	390,042
Property, plant and equipment-Intangible	8,362	9,645	6,398	6,200
Employees' loans	6,055	5,055	-	-
Inventories	14,332	16,838	10,074	11,336
Accounts receivables and prepayments	9,961	11,803	1,749	5,967
Cash and cash equivalents	4,442	3,354	-	-
	932,717	936,076	387,480	413,545
Liabilities				
Employees' provident fund	9,450	8,393	-	-
Post employment benefits	58,018	51,545	20,813	20,505
Accounts payable and accrued expenses	93,608	125,250	29,883	30,439
	161,076	185,188	50,696	50,944
Net assets	771,641	750,888	336,784	362,601
Statement of comprehensive income				
Income	190	16,924	129	2
Expenses	(156,428)	(169,567)	(110,710)	(123,218)
Net expenses for the year	(156,238)	(152,643)	(110,581)	(123,216)
Others				
Proportionate share in joint capital commitments	87,756	156,699	13,425	14,987
Proportionate share in the Joint Operating lease commitments				

Minimum operating lease commitments on non-cancellable leases are:

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

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 foreign exchange risk, interest rate risk and credit 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	
	2016	2015
Accounts receivable	1,085	4,553
Employees' loans	7,904	5,861
Balances with banks	6,569	4,511
	<u>15,558</u>	<u>14,925</u>

Accounts receivable represents current account balances due from a Joint Venturer. 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 exchange risk, interest rate risk and price risk arises due to movements in market prices of assets, interest rates and foreign currency rates.

(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 2016, Kuwaiti Dinars had strengthened by 5% against the US Dollar with all other variables held constant, expenses for the year would have been lower by KD 4 thousand (2015: higher by KD 37 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 2016

(iii) Equity price risk

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 2016 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.



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