



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



2019

Annual Report

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

إحدى شركات مؤسسة البترول الكويتية
A Subsidiary of Kuwait Petroleum Corporation

Annual Report 2019





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



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



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



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Board Members



Fouad Issa Al-Abbasi
Chairman



Khalifa MUSAED Hamadah
Deputy Chairman



Abdullah Ali Al Sumaiti
Board Member



Shk. Nimr Fahad Al Malek Al Sabah
Board Member



Basim Essa Al- Essa
Board Member



Nayef Abdullah Al Anezi
Board Member



Hassan Ali Bunayyan
Board Member



Executive Management



Abdullah Al-Sumaiti
Deputy CEO
Planning & Commercial Affairs



Mohammed Salem Al-Haimer
Deputy CEO
Joint Operations



Abdullah Matar Al-Shammari
Deputy CEO
Finance & Administration Affairs



Managers



Falah Al-Anezi
Manager Management Support



Bader Al-Harbi
Manager Legal Affairs



Abdullah Sayed Hashim
Manager Corporate Planning



Nasser Salem Rashid
Assets Management (Khafji)



Faisal Bader Al-Jeri
Manager Human Resources



Waleed AlKhaddah
Manager Commercial Affairs



Anwar Al-Sharqawi
Assets Management (Wafra)



Mona Al-Barjas
Manager Financial Services



Ahmed Abdullah Al-Awadhi
Manager Information
Technology & Services



Abdulaziz Dashti
Manager Risk Management



CEO Speech

It is a great pleasure, on behalf of myself and my colleagues in the executive branch, to present the KGOC's Annual Report that includes its significant achievements, works and activities for the financial year ended on 31st December 2019.

This report highlights the efforts and procedures of the concerned authorities in the Ministry of Foreign Affairs, in particular, the Kuwaiti Border Committee, and the Ministry of Oil, represented by HE the Minister of Oil and the Acting Minister of Electricity & Water, in addition to KPC's Executive Management, the Company's financial year 2019 has witnessed a new start in its history marked by the end of Oil production suspension in KJO & WJO, and the preparation for the resumption of production operations. On December 27, 2019, both the State of Kuwait and the Kingdom of Saudi Arabia have been able to sign an agreement attached to the Divided Zone Dividing Agreement and the agreement on dividing the adjacent Submerged Zone Dividing Agreement. In addition, the two countries signed Memorandum of Understanding on the same date included directing companies that watch over the interests of the two countries to accelerate the oil reproduction in the mentioned two zones.

In an effort to activate the content of the above-mentioned direction, the Company's Executive Management immediately determined the steps to be taken to resume the actual production, in coordination with the partners in the two zones to move forward in the light of the Company's board of directors' directions, and the procedures established by the reproduction plans prepared by the Company during 2019, provided that the beginning of the financial year 2020 marks the beginning of the gradual return of actual oil production in the two zones, oil export operations, and developing Dorra Field.

In addition to this remarkable historical achievement, the financial year 2019 had seen many efforts and achievements made by all the Company's directorates and organizational groups. This report reviews the most important efforts and achievements regarding the Maximizing the Strategic Value





CEO Speech

of the Crude Oil, the Optimal Utilization of the Potential Value of Gas, and the Development of Oil Reserves to Ensure the Productions Sustainability. In addition to the achievements in the HSSE field and the Excellence in Performance activities.

I would like on behalf of myself, Colleagues in the Company's executive branch, I 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 objectives.

It is my pleasure to thank the Chairman and all Board members for their valuable efforts. Well as their contributions and effective role in achieving the Company's objectives and strategy.

It always my pleasure to extend our gratitude and being recognized to HE the Minister of Oil and Acting 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, in which I take this opportunity to confirm our commitment to continue our effort to achieve their expectations along with the Company's objectives.

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

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

1. Maximizing the Strategic Value of the Crude Oil:

- 1.1 Completed the reading and analyzing the data of the 3D Seismic Survey for the entire onshore Divided Zone between the State of Kuwait and the Kingdom of Saudi Arabia, which will enable the Company to coordinate with the Saudi partner in the Zone to match these data and identify activities and projects that will contribute to maximizing the strategic value of the joint natural resources.
- 1.2 Achieved 95% of the Project of Drilling, Completing and Equipping 39 appraisal wells in Wafra Field, in which 93.2% of the approved budget value for the project has been disbursed. The project is expected to be completed in December 2022.
- 1.3 Increase the efforts to complete the project of installing a new oil pipeline in KJO area to transport Al-Hout crude.

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

- 2.1 Completed the Environmental Projects Program in KJO and reducing gas flaring in the area according to the rates set by the official environment authorities.
- 2.2 Achieved 99.4% of the Associated Gas

Project in Al-Hout (Rattawi limestone layers in Khafji), in which

98.5% of the approved budget value for the project has been disbursed. The project is expected to be

completed in December 2020.

- 2.3 Achieved 86.09% of the project of constructing a new gas pipeline from KJO to KNPC's Mina Al Ahmadi Refinery, in which 55.46% of the approved budget value for the project has been disbursed.
- 2.4 Achieved 100% of the project of constructing gas and LNG export facilities in KJO, in which 100% of the approved budget value for the project has been disbursed.
- 2.5 Reconsidered the initial engineering studies for the Central Gas Utilization Project in WJO.

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

- 3.1 Carried out periodic workovers for more than 1,200 wells in WJO area to ensure their integrity and full readiness to work in case of issuance of directions to resume oil production in the area.
- 3.2 Completed in-house study to assess the impact of production shutdown by analyzing the data of wells pressures for Khafji 1st & 2nd Bahrain sand reservoirs.



The Company's Achievements



- 3.3 Completed a model for the speed of seismic waves and deep layers structures maps, and carried out the seismic shift phase to figure out the physical properties of the layers of South Fawaris in WJO.
 - 3.4 Checked the quality of Khafji 1st & 2nd Bahrain sand reservoirs simulation model.
 - 3.5 In an effort to strengthen cooperation and exchange best practices with associates, the Company, in cooperation with KOC, has adopted rocks' digital physics technology in preparation for applying it in future projects to be implemented in the operations area.
 - 3.6 Worked on appraising the six fields in WJO to identify extension opportunities for additional production.
- 4. Health, Safety, Security and Environment (HSSE):**
- 4.1 Completed operational insurance policies renewal for KJO (offshore / Onshore) in London insurance market.
 - 4.2 Organized an awareness lecture for the employees about the Occupational Health Department of the Ministry of Health.
 - 4.3 Issued a quarterly insurance e-magazine that deals with activities and directions of HSSE.
 - 4.4 Established e-system for distributing group health insurance cards to eligible employees.
 - 4.5 Qualified insurance companies for Health Insurance Policy of Payment and Reimbursement System of KPC and its subsidiaries.
 - 4.6 Completed the annual assessment of Risk Register Update (Delete / Add / Edit) to reflect the current state of risk facing the Company and approve the changes by the Risk Oversight Committee.
 - 4.7 Implemented a health campaign within the Company included many activities related to the employees' health, such as general checks, health awareness lectures, and blood donation.
 - 4.8 Placed a policy for the security situations includes three security threat levels, and how to deal with each situation.
- 5. The Excellence in Performance:**
- 5.1 Within the scope of training plans to develop human elements by developing their practical capabilities and skills, the Company carried out a six-month intensive training program designed for those with professional disciplines of its employees in cooperation with Compagnie Generale Geophysique (CGG), a leading company in the field of geological data analysis.

The Company's Achievements



- 5.2 Within its efforts to enhance performance efficiency, the Company, with complete depending on its human resources, updated QMS from ISO 9001:2008 to ISO 9001:2015.
- 5-3 Launched E-Service System to improve work performance and reduce paper use.
- 5.4 Carried out the Project of Knowledge Management System (KMS).
- 5.5 Launched Enterprise Content Management System (ECM) to reduce paper use.
- 5.6 Carried out the intensive training program “PETROMOD” in cooperation with Schlumberger.
- 5.7 Developed a database of existing projects in KJO & WJO in order to provide a study on the risks that previously faced projects implementation, and support the Company’s management in making decisions about capital projects.
- 5.8 Completed and activated the first stage of “ORACLE FUSON” system, after transferring the employees’ data from the previous system.
- 5.9 Initiated in-house training for national employees with professional disciplines conducted by an experienced employee from the same team to analyze wells performance using (PIPESIM) program.
- 5.10 Completed the first experiment of “Lean 6 Sigma” system in WJO area, that contributed to reducing the time of requesting engineering services from 189 days to 60 days.
- 5.11 To enhance the efforts of the oversight bodies, especially the State Audit Bureau, the Company developed an electronic system to follow up the observations and recommendations of the Bureau and to quickly provide its representatives with the required data and information.
- 5.12 Converted the Interview Assessment System of Grade 17 and above from the paper-based system to an automatic system.

6. Social Responsibility:

- 6.1 Donated a blood donation mobile vehicle, which is the largest in the Middle East, to the Blood Bank of the Ministry of Health to enhance its capabilities related to blood donation campaigns.
- 6.2 Made several donations to several of the State’s public interest organizations and associations, such as the Ministry of Health, Kuwait Red Crescent Society, Kuwait Society of Engineers, Kuwait Chemical Society and Kuwait Dive Team, to help and enable them to carry out various activities and events that will benefit the country.



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

State of Kuwait

Annual Financial Statements and Independent Auditor's Report

31 December 2019

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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 2019, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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.

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

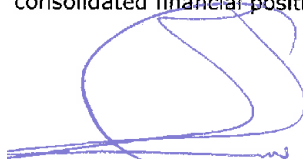
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of accounts have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit; and that the consolidated financial statements incorporate all the information that is required by Companies Law No. 1 of 2016, and its executive regulations, as amended; and by the Company's Memorandum of Incorporation and Articles of Association, as amended; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, and its executive regulations, as amended; or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2019 that might have had a material effect on the business of the Company or on its consolidated financial position.



Bader A. Al-Wazzan


Consolidated Statement of Financial Position as of 31 December 2019

All amounts are in K.D

ASSETS	Note	2019	2018
Non-current assets			
Property, plant and equipment			
Tangible	3	1,090,219	1,115,568
Intangible	4	41,000	45,957
Right-of-use assets	5	17,135	-
Accounts receivable and prepayments	6	5,797	7,715
Employees' loans	7	6,281	6,381
		<u>1,160,432</u>	<u>1,175,621</u>
Current assets			
Inventories	8	21,667	22,535
Accounts receivable and prepayments	6	10,516	17,836
Employees' loans	7	3,252	3,657
Cash and cash equivalents	9	7,633	7,990
		<u>43,068</u>	<u>52,018</u>
Total assets		<u>1,203,500</u>	<u>1,227,639</u>
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	10	120,000	120,000
Foreign currency translation reserve		48,314	49,455
Remeasurement of defined benefit obligation		<u>(28,354)</u>	<u>(17,378)</u>
		<u>139,960</u>	<u>152,077</u>
Non current liabilities			
Employees' provident fund	11	11,803	10,885
Post employment benefits	12	165,783	147,827
Lease liabilities	13	11,334	-
		<u>188,920</u>	<u>158,712</u>
Current liabilities			
Accounts payable and accruals	14	166,651	139,783
Due to the Parent	15	703,321	777,067
Lease liabilities	13	4,648	-
		<u>874,620</u>	<u>916,850</u>
Total shareholder's equity and liabilities		<u>1,203,500</u>	<u>1,227,639</u>

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

Consolidated Statement of Income – Year ended 31 December 2019

All amounts are in K.D

	Note	2019	2018
Operating expenses	16	190,850	215,175
General and administration expenses	17	39,861	35,499
Depreciation and amortization	3,4 & 5	90,173	85,548
Interest on lease liabilities	13	510	-
Directors' remuneration	18	58	49
Interest income		(46)	(42)
		<u>321,406</u>	<u>336,229</u>
Costs reimbursable by the Parent	15	<u>(321,406)</u>	<u>(336,229)</u>
Net income		<u>-</u>	<u>-</u>

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

Consolidated Statement of Comprehensive Income – Year ended 31 Dec. 2019

All amounts are in K.D

	2019	2018
Other comprehensive income		
:Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit obligation	(10,976)	8,606
:Items that may be reclassified subsequently to profit or loss		
Foreign currency translation adjustment	(1,141)	4,070
Total comprehensive (expense)/income for the year	(12,117)	12,676

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

Consolidated Statement of Changes in Equity – Year ended 31 Dec. 2019

All amounts are in K.D

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

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

Consolidated Statement of Cash Flows – Year ended 31 December 2019

All amounts are in K.D

	Note	2019	2018
Cash flows from operating activities			
Depreciation and amortization	3,4 & 5	90,173	85,548
Loss on disposal of property, plant & equipment		603	1,712
Assets under construction charged to expenditure	3	-	2,506
Interest on lease liabilities	13	510	-
Operating cash before working capital changes		91,286	89,766
Employee loans		505	(1,785)
Inventories		868	1,487
Accounts receivable and prepayments		7,863	(11,852)
Due to the Parent		(73,746)	(63,975)
Employees' provident fund		918	1,094
Post employment benefits		7,074	24,331
Accounts payable and accruals		26,095	16,518
Net cash from operating activities		60,863	55,584
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(54,706)	(50,466)
Payment for seismic surveys	4	(1,418)	-
Net cash used in investing activities		(56,124)	(50,466)
Cash flows from financing activities			
Lease liabilities paid	13	(4,646)	-
Net cash used in financing activities		(4,646)	-
Net increase in cash and cash equivalents			
		93	5,118
Adjustment for foreign exchange rates		(450)	(3,569)
Cash and cash equivalents - at beginning of year		7,990	6,441
Cash and cash equivalents - at end of year	9	7,633	7,990

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

1. Constitution and principal activities

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

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

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

The Company is a participant in two joint operations 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 28 April 2020 and are subject to approval of the Shareholder at the Ordinary General Assembly.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial

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

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. Crude oil production at WJO was stopped effective from 11 May 2015 to carry out maintenance activities. In December 2019 the State of Kuwait and the Kingdom of Saudi Arabia signed a Memorandum of Understanding on procedures to restart the production at KJO and WJO. The production is expected to resume in the first quarter of 2020. Furthermore, Dorra offshore gas field development continues to be on hold as at 31 December 2019 pending instructions from Khafji Joint participants.

Both KJO and WJO are expected to continue their business, as their managements have been instructed to continue with all drilling, maintenance operations and capital investment activities. Furthermore, both the Khafji and Wafra Joint Participants have been funding the activities based on cash calls. KJO has approved its budget for 2020 and the Parent Company believes that WJO will also approve its budget for 2020. 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 2019, 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 2019.

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 24.

Changes in accounting policies

New and amended IFRSs that are effective from 1 January 2019

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of IFRS 16: Leases effective from 1 January 2019.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 did not have any material impact on the accounting policies, consolidated financial position or performance of the Group.

IFRS 16: Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The Group's accounting policies resulting from its adoption of IFRS 16 are summarized below:

The Group as a lessee

At the inception of the contract, the Group assesses whether a contract is or contains a lease. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another

systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

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

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

To determine the incremental borrowing rate, the Group:

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

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

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

Payments associated with leases of short term leases and low-value assets are recognized on a straight-line basis as an expense in profit or loss.

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

Subsequent Measurement

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

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

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

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment

All amounts are in K.D

under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

For a contracts that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Transition to IFRS 16

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right-of-use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the retained earnings as at 1 January 2019. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described in note 25.

Policy applicable before 1 January 2019

Where the Group is the lessee

Operating leases

Leases of property and equipment under which, all 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.

New and revised IASB Standards, but not yet effective

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

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

The amendments are applied prospectively on or after 1 January 2020, with early application permitted.

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

2.2 Financial Instruments

Recognition and derecognition

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

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

All amounts are in K.D

‘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.
- 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 impair-

ment 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

Financial liabilities “other than at fair value through profit or loss” are subsequently measured and carried at amortized cost using the effective yield method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. Equity interests are classified as financial liabilities if there is a contractual obligation to deliver cash or another financial asset.

Impairment of financial assets

Under ‘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.

General approach

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.

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.

2.3 Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

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

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

2.4 Property, plant and equipment

Drilling and exploration (Wells)

Drilling and exploration comprising costs of drilling wells are accounted for under the "successful efforts" method of accounting. Under this method such costs are capitalized unless determined to be

All amounts are in K.D

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	25 – 20
Wells	20 – 10
Pipelines, equipment and machinery	25 – 5
Furniture and tools	10
Ships and vehicles	12 – 5
Computer and communication equipment	10 – 5

2.5 Intangible assets

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

2.6 Impairment of non-financial assets

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

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

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

2.7 Inventories

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

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2.8 Cash and cash equivalents

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

2.9 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.

2.10 Post employment benefits

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

Kuwaiti employees of the Parent Company are entitled to pension and other social benefits, which are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of salaries basis. The Parent Company's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard (IAS) 19 – Employee Benefits is recognized as an expense for the year.

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

2.11 Foreign currencies

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

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

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

2.12 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 consolidated statement of income.

2.13 Revenue recognition

Interest income is recognised using the effective yield method.

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3. Property, plant and equipment – Tangible

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

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

	Plant	Build-ings	Struc-tures	Wells (Non-ex-ploratory)	Wells (exploratory)	Pipelines, equipment & machinery	Furni-ture & tools	& Ships vehi-cles	Computer & Comm-unication equipment	Construc-tion 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

4. Property, plant and equipment - Intangible

	Seismic surveys	Others	Total
Cost			
At 1 January 2018	60,375	20,691	81,066
Exchange adjustment	107	34	141
At 31 December 2018	60,482	20,725	81,207
Additions	1,418	-	1,418
Transfer from asset under construction	-	80	80
Exchange adjustment	(29)	(11)	(40)
At 31 December 2019	61,871	20,794	82,665
Accumulated amortization			
At 1 January 2018	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
Amortized during the year	4,734	1,715	6,449
Exchange adjustment	(24)	(10)	(34)
At 31 December 2019	27,248	14,417	41,665
Net book value			
At 31 December 2019	34,623	6,377	41,000
At 31 December 2018	37,944	8,013	45,957

5. Right-of-use assets

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

The Group's leasing activities

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

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

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

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

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

	Machinery and equipment	Marine vessels	Vehicles	Furniture and tools	Computer & Communication	Aircraft	Total
Balance as of 1 January 2019	31	9,091	2,521	464	-	-	12,107
Add: Additions	247	1,548	1,090	404	3	6,894	10,186
Less: Amortisation	(46)	(3,167)	(1,566)	(138)	(1)	(212)	(5,130)
Exchange adjustment	-	(12)	(3)	-	-	(13)	(28)
Closing balance as at 31 December 2019	<u>232</u>	<u>7,460</u>	<u>2,042</u>	<u>730</u>	<u>2</u>	<u>6,669</u>	<u>17,135</u>

6. Accounts receivable and prepayments

	2019	2018
Non-current		
Prepayments	5,797	7,715
Current		
Accounts receivable	2,423	1,034
Prepayments	8,093	16,802
	<u>10,516</u>	<u>17,836</u>
	<u>16,313</u>	<u>25,551</u>

Accounts receivable represents KD 2,418 thousand due from the joint operation partner (2018: KD 1,034 thousand).

Accounts receivable and prepayments include KD 12,050 thousand denominated in US Dollars (31 December 2018: KD 22,212 thousand).

7. Employees' loans

	2019	2018
Non-current	6,281	6,381
Current	3,252	3,657
	<u>9,533</u>	<u>10,038</u>

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 7,142 thousand (2018: KD 7,046 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 7,414 thousand is due in US Dollars (31 December 2018: KD 7,373 thousand).

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8. Inventories

	2019	2018
Materials and supplies	32,696	33,876
Provision for obsolete and slow-moving items	(11,029)	(11,341)
	<u>21,667</u>	<u>22,535</u>

9. Cash and cash equivalents

	2019	2018
Cash at banks	4,699	6,752
Term deposits	2,934	1,238
	<u>7,633</u>	<u>7,990</u>

Cash at banks includes KD 1.47 million (2018: KD 2.82 million) earmarked funding towards the Company's share of saving scheme as disclosed under note 11.

10. 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 2018: 120,000,000 shares of KD 1 each).

11. Employees' provident fund

	2019	2018
Savings scheme	4,320	4,041
Investment scheme	1,424	1,280
Reward scheme	6,059	5,564
	<u>11,803</u>	<u>10,885</u>

The above schemes are funded by savings accounts and short-term deposits (note 9).

12. Post employment benefits

	2019				2018
	Regular	Special	Early/others	Total	Total
At 1 January	137,062	10,862	(97)	147,827	133,062
Exchange adjustment	(72)	(19)	(3)	(94)	(960)
Net movements during the year	4,862	825	1,342	7,029	24,331
(Actuarial valuation loss / (gain	8,601	2,420	-	11,021	(8,606)
At 31 December	<u>150,453</u>	<u>14,088</u>	<u>1,242</u>	<u>165,783</u>	<u>147,827</u>

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.

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- 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.

13. Lease Liabilities

Balance as of 1 January 2019	9,959
Additions	10,186
Accretion of interest	510
Payments	(4,646)
Exchange adjustment	(27)
Closing balance as at 31 December 2019	<u>15,982</u>
Of which are:	
Current lease liabilities	4,648
Non-current lease liabilities	<u>11,334</u>
	<u>15,982</u>

14. Accounts payable and accruals

	2019	2018
Accounts payable	60,430	51,530
Accrued expenses	98,888	76,691
Other payables	<u>7,333</u>	<u>11,562</u>
	<u>166,651</u>	<u>139,783</u>

Accrued expenses include KD 2,024 thousand (31 December 2018: KD 1,337 thousand) payable to a related party.

Accounts payable and accruals include KD 97,386 thousand denominated in US Dollars (31 December 2018: KD 96,906 thousand).

15. Due to the Parent

	2019	2018
Balance at 1 January	777,067	841,042
Funds received during the year	247,660	272,254
Costs reimbursable by the Parent	<u>(321,406)</u>	<u>(336,229)</u>
Balance at 31 December	<u>703,321</u>	<u>777,067</u>

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16. Operating expenses

	2019	2018
Contracts	58,198	55,752
Staff costs	130,964	154,393
Operating lease rental	1,688	5,030
	<u>190,850</u>	<u>215,175</u>

17. General and administration expenses

	2019	2018
Staff costs	22,715	23,165
Training	341	914
Others	16,805	11,420
	<u>39,861</u>	<u>35,499</u>

18. Directors' remuneration

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

19. Related party transactions

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

Expenses for the year include KD 8,781 thousand (2018: KD 7,141 thousand) charged by related parties for providing administration and other support services.

Key management compensation

	2019	2018
Salaries and other long term employee benefits	406	462
Post employment benefits	59	133
	<u>465</u>	<u>595</u>

20. Interest in the Joint operations

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

Notes to the Consolidated Financial Statements – 31 December 2019

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Consolidated Statement of financial position	KJO		WJO	
	2019	2018	2019	2018
Assets				
Property, plant and equipment-Tangible	832,341	835,483	240,696	268,201
Property, plant and equipment-Intangible	4,077	5,042	35,588	40,915
Right-of-use assets	16,585	-	-	-
Employees' loans	7,414	7,374	-	-
Inventories	11,149	12,073	9,190	9,134
Accounts receivables and prepayments	11,229	21,178	2,418	1,152
Cash and cash equivalents	7,022	7,015	-	-
	<u>889,817</u>	<u>888,165</u>	<u>287,892</u>	<u>319,402</u>
Liabilities				
Employees' provident fund	11,803	10,885	-	-
Post employment benefits	103,929	88,621	42,270	40,215
Accounts payable and accrued expenses	104,017	85,488	27,701	24,161
Lease liabilities	4,271	-	-	-
	<u>224,020</u>	<u>184,994</u>	<u>69,971</u>	<u>64,376</u>
Net assets	<u>665,797</u>	<u>703,171</u>	<u>217,921</u>	<u>255,026</u>
Consolidated Statement of comprehensive income				
Expenses for the year	(173,641)	(199,139)	(106,710)	(107,322)
Others				
Proportionate share in joint capital commitments	<u>8,170</u>	<u>125,434</u>	<u>-</u>	<u>3</u>

Proportionate share in the Joint Operating lease commitments

Minimum operating lease commitments on non-cancellable leases are:

	2019	2018
Not later than one year	11,301	9,471
Later than one year and not later than five years	9,247	2,436
Later than five years	3,793	725
	<u>24,341</u>	<u>12,632</u>

21. 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

Lease liabilities

Fair value measurement

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

22. 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:

	2019	2018
Accounts receivable	2,423	1,034
Employees' loans	9,533	10,038
Balances with banks	7,633	7,990
	<u>19,589</u>	<u>19,062</u>

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

(b) Market risk

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

(i) Foreign currency risk

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign currency rates. The Group is primarily exposed to foreign currency

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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 2019, 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 (2018: 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 2019.

(iii) Equity price risk

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

(c) Liquidity risk

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

All financial liabilities of the Group as of 31 December 2019 mature within 12 months except for employees' provident fund, post employment benefits and lease liabilities. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

23. Capital risk management

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

24. Significant accounting judgments and estimates

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

Impairment of assets

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

Useful lives of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives and related depreciation charge and amortisation for its property, plant and equipment and intangible assets. The estimate is based on

product life cycle of its equipment and intangible assets. It could change significantly as a result of change in technology. Management will increase the depreciation charge and amortisation where useful lives are less than previously estimated lives.

Defined benefit plan obligation

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

Lease term

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

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

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

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

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

25. Impact of adoption of IFRS 16

While applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made for applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously

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been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019, which is as follows:

Operating lease commitments as at 31 December 2018	12,632
Discounted using the lessee’s incremental borrowing rate at the date of initial application	<u>9,523</u>
Of which are:	
Current lease liabilities	3,221
Non-current lease liabilities	<u>6,302</u>
	<u>9,523</u>

The weighted average of lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.5% to 5.5%.

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Right-of-use assets - increase by KD 12,107 thousand
- Advances and prepayments - decrease by KD 1,372 thousand
- Lease liabilities - increase by KD 9,944 thousand
- Accounts payables and accruals - increase by KD 791 thousand

26. Subsequent events

The outbreak of Novel Coronavirus (Covid-19) in early 2020 in most countries around the world has caused widespread disruptions to business, with a consequential negative impact on economic activity. The Group considers this event to be a non-adjusting event after the reporting period and therefore has not made any adjustments to the consolidated financial statements as a result of this matter. The outcome of this event is unknown and therefore the impact on the Group cannot be reasonably quantified at the date of issuance of these consolidated financial statements. The effect of Covid-19 on the Group will be considered in the determination of the Group’s estimates in 2020.