البترول الوطنية
KNPC
إحدى شركات مؤسسة البترول الكويتية
A Subsidiary of Kuwait Petroleum Corporation

CLEAN FUEL
VISION AND REALITY

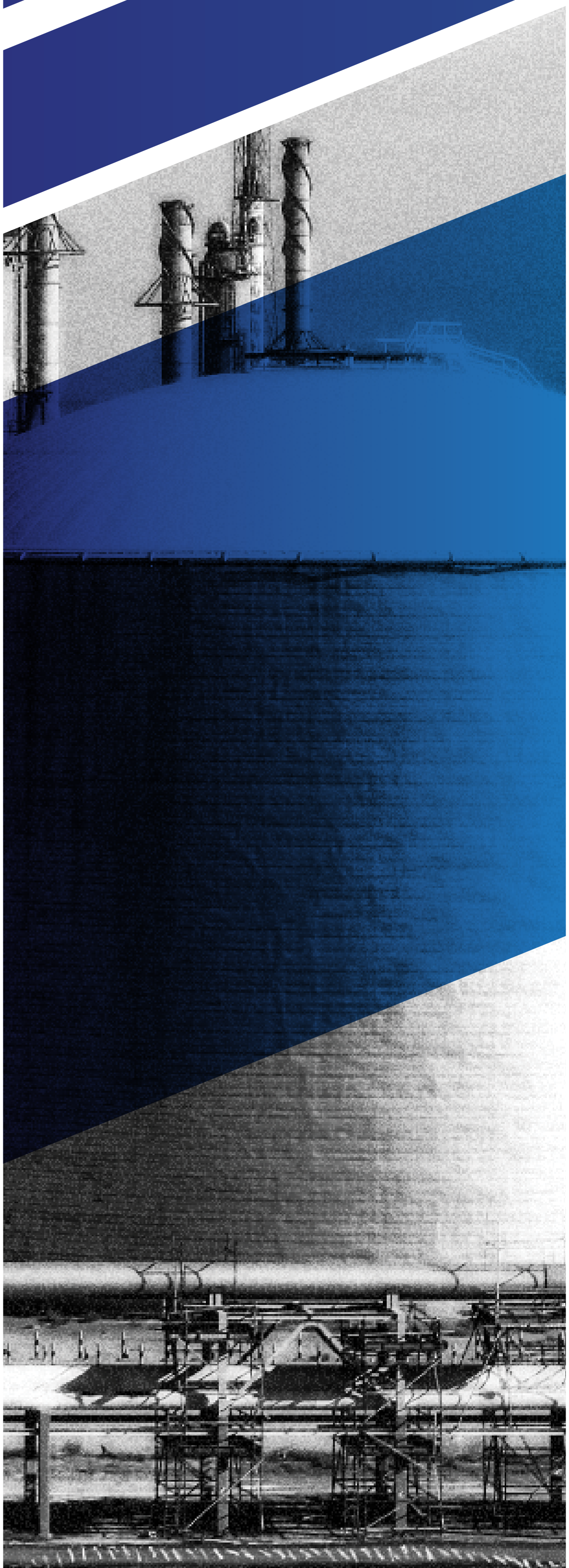
ANNUAL REPORT
2015 - 2016

CLEAN FUEL

VISION AND REALITY

His Highness Sheikh
SABAH AL-AHMED AL-JABER AL-SABAH
Amir of the State of Kuwait

His Highness Sheikh
NAWAF AL-AHMED AL-JABER AL-SABAH
Crown Prince of the State of Kuwait

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BOARD OF DIRECTORS

Asaad Ahmed Al-Saad
Board Chairman

Adel Al-Jassem
Board Member

Mohammad Ghazi Al-Mutairi
CEO

Hosniah Hashem
Deputy Chairman

Fahd Al-Nashmi
Board Member

Abdulmuhsin Khaja
Board Member

Adnan Al-Aradi
Board Member

BOARD OF DIRECTORS from 18/1/2016

Jamal Al-Nori
Board Chairman

Talal Al-Sobah
Board Member

Mohammad Ghazi Al-Mutairi
CEO

Hosniah Hashem
Deputy Chairman

Khalid Al-Mushaileh
Board Member

Naser Al-Saleh
Board Member

Ismael Abbul
Board Member

KPC Board of Directors issued a decision for appointing New KNPC Board of Directors on 18 January 2016

TOP MANAGEMENT

Mohammad Ghazi Al-Mutairi
CEO

Fahad Al-Dehani
Deputy CEO, MAA

Mutlaq Al-Azmi
Deputy CEO, SHU

Ahmad Al-Jemaz
Deputy CEO, MAB

Hatem Al-Awadhi
Deputy CEO, Al-Zour Refinery Projects

Abdullah Al-Ajami
Deputy CEO, Projects

Shukri Al-Mahrous
Deputy CEO, Planning & Local Marketing

Ali Abdullah
Deputy CEO, Finance and Administration

Khaled Al-Asousi
Deputy CEO, Support Services

Message from the Chief Executive Officer

It gives me a great pleasure, while introducing the company Annual Report for the fiscal year 2015/2016, to highlight KNPC outstanding achievements during this period in a wide range of core business fields, notably in the execution of our strategic projects: the Clean Fuels Project and Al Zour Refinery Project. Work in CFP implementation was intensified during this period following laying down the foundation stone under the patronage of His Highness the Amir Sheikh Sabah Al Ahmed Al Jaber Al Sabah in April 2015. Sites were fully prepared and became ready for equipment and machinery installation. In fact, a large number of heavy equipment have been installed and units of Mina Abdulla Refinery were tied in with the project, followed by various units of Mina Al Ahmadi Refinery. We can assert that over 50% of the project has been accomplished by end of this fiscal year. Remarkable steps have also been taken in the execution of Al Zour Refinery project including site preparation, signing contracts with the tenders winning alliances and transfer of heavy equipment to its site beside other jobs which exceeded 13% of the project. As I feel extremely proud of seeing these two mega projects translated into reality on ground, thanks to the efforts of this generation of ambitious Kuwaitis at KNPC and Kuwait Petroleum Corporation (KPC), I am confident that the new refineries will radically alter scene of the oil refining industry which undertakes manufacturing of a large share of Kuwait oil resources, in a way that will add more value to the national economy and push forward the wheel of comprehensive development in our country.

Our plans for more growth included also another huge project intended to secure gas fuel for the power plants. We have signed nearly one billion Kuwait Dinar contract to install liquefied Natural Gas (LNG) import facilities at Al Zour area. Beside its value as a source of cleaner and less environment impacting fuels, it secures flow of gas supplies to those plants at the peak of their operations and the climax of domestic energy consumption in summer. Gas projects also include commissioning of the 4th gas unit and execution of the 5th Gas Unit which will lift KNPC gas processing capacity to 3.3 billion cubic feet a day. The company also embarked on a new project to increase gas storage capacity to cope with the emerging gas processing growth.

As concerning crude oil refining, the company core business, our three refineries continued their operations at full gear, running during this fiscal year at a daily average rate of 857 thousand barrels. This high yield is the result of wise planning of production, effective maintenance programs which enhanced units reliability coupled with the high professionalism and dedication of the company employees.

The plummeting oil prices which began over two years ago, impacted economies of the oil producers across the world. The State of Kuwait naturally was not an exception. Therefore strategic plans were drawn by the government to cope with the drop in the main source of income which comprised among other tools, cutting down expenditure of ministries and governmental establishments including KPC and its subsidiaries. KPC launched specific schemes designed to implement this strategy and cut down expenditure. The best results were achieved by KNPC and KOC, according to KPC statement. We are proud of this achievement as we were able to do what we can to contribute to this national objective which serves our country's ability to cope with the new unfavourable situation. In our strive to fulfill this goal, we managed to save during this period around KD 121 million of operational expenses and cut down our other expenses by KD 27 million.

However, and in spite of those ongoing challenges to the oil refining industry, KNPC generated a net profit of KD 176 million during this fiscal year showing a substantial increase from last year profit which totaled KD 44 million. This increase is attributed to some improvement of oil prices in the last quarter of the fiscal year, successful production planning and expenditure cuts policy.

With regard to the local marketing activities, the company is in the process of implementing a number of projects designed to upgrade the infrastructure of fuel supplies to transport and industry across the country. Among the initiatives of the far reaching effect, was supplying two petrol stations with solar energy in collaboration with Kuwait Institute for Scientific Research -KISR- which ushered for the start of an ambitious plan for the application of sustainable energy in the company operations. KNPC will continue nurturing this strategic objective which comes in fulfillment of His Highness the Amir's vision which called for securing 15% of Kuwait power consumption from sustainable energy.

Such accomplishments and the remarkable ability to overcome the difficulties would have not materialized without the outstanding professionalism of the company employees, coupled with the sense of belonging and loyalty they demonstrated. Therefore, it gives me a real pleasure to express, on behalf of my colleagues in the Board of Directors, the Higher Management and myself, deep thanks and appreciation to them all and to reassert full confidence that they will continue these efforts for the sake of their organization progress and growth. I wish also to seize this opportunity to welcome the chairman and members of KNPC new Board of Directors wishing them all the best of luck and success. I won't also miss this opportunity to commend the efforts made by the outgoing Board who provided us during their tenure, with support and council to steer the wheel of progress and success of our company.

Mohammad Ghazi Al Mutairi
Chief Executive Officer

Milestones in the Fiscal Year 2015/2016

- **More than 50% of Clean Fuels Project have been completed.**
- **Contarcts Signing for Al Zour Refinery Project.**
- **Contracts Signing for the Liquefied Natural Gas (LNG) import facilities were completed.**
- **In spite of prevailing challenges, KNPC generated KD 176 million as a net profit.**
- **Construction of 19 filling stations is well underway.**
- **Sustainable Energy Application takes new turn in KNPC as two petrol stations were supplied with power from solar energy sources.**

Company Highlights

	2013/2014	2014/2015	2015/2016
Financial Parameters (KD Million)			
Company Product Sales	13552.8	10965.8	6744.2
Total Sales of Local Marketing	330.0	351.5	370.3
Company Net Profit	216.5	43.9	175.7
Total Operating Expenses	662.4	684.6	631.9
Capital Expenses	210.9	501.7	1354.03
Change in Fixed Assets	115.9	456.1	1312.2
Crude Oil Feed Rate (000bpd)			
Shuaiba Refinery	192.7	186.6	167.8
Mina Abdullah Refinery	255.6	267.7	264
Mina Al-Ahmadi Refinery	411.9	411.6	425.3
Total	860.2	865.9	857.1
Sales			
Total Products Exported to World Markets (1000 tons)	33263.0	33751.7	33833.9
Fuel to Local Market (Million Liters)	5546.3	5800	6011.1
Fuel to Ministry of E&W (Million Liters)	8770.6	7546.8	8346.3
Bitumen (1000 MT)	92.8	102.1	94.2
Manpower			
Manpower at the End of the Fiscal Year	6644	6464	6344

* Sales include petroleum products supplied by KNPC to local market on behalf of KPC and from its own operations.

Chapter 1

Crude Oil Refining and LPG

A-Crude Oil Refining

High performance in KNPC three refineries, Mina Al Ahmadi, Mina Abdulla and Shuaiba continued throughout the fiscal year 2015/2016, as their total crude oil throughput reached around 313 million barrels at the daily average rate of 857.1 thousand barrels, against a total of 316 million barrels in the previous fiscal year, at the rate of 866 thousand barrels per day.

The three refineries demonstrated during their operation as an integrated refining complex, genuine abidance by Health, Safety and Environment standards which made sustained safe operations the predominant factor throughout the year. High performance is naturally the outcome of diversified factors, including production planning, high reliability of plants and professionalism of the operation and maintenance staff. Brief description of the refineries individual performance is outlined below:

Mina Al Ahmadi Refinery

With a total capacity of around 466 thousand barrels a day, MAA is naturally the largest refinery in Kuwait and one of the largest oil refining plants in the region. Its total throughput reached during this year 155.7 million barrels running at the daily average rate of 425.3 thousand barrels, compared to an average rate of 411.6 thousand barrels per day in the previous fiscal year.

Petroleum Products exported from Mina Al Ahmadi reached around 11,923 thousand metric tons this year, exported from MAA oil piers, in addition to 753.5 thousand metric tons of sulfur and 347.2 thousand metric tons of bunker oil.

Among the Refinery main achievements during this period are:

- Operating Eocene Unit on West Kuwait Crude instead of the Eocene oil in order to be able to produce Bitumen meeting quality specifications.

- Refinery Flare loss recovery was improved to around 2.2MMSCF/D compared to actual figure of the previous fiscal year of 6MMSCF/D by replacing flare valves, gas traps and seal leaks of gas compressors.

- Fuel oil temperature to Al Zour Power Station was maintained between 67˚ and 72˚C. An average of 8K.Ton/Day of fuel oil was supplied to this station during summer. Thus avoiding burning of crude oil and gaining between US$ 12 -16 million in profit per month.

- FCC unit in the Refinery was successfully commissioned on 25th of December after revamp of the new reactor and internal regenerator and fractionator.

- In the meantime MAA kept HSE standards on top of its priorities giving them utmost attention and care, and maintained a safe record during the fiscal year. The refinery won the British Safety Council award for this record and was presented with the gold medal of the Royal Society for Prevention of Accidents (RoSPA). The refinery has been winning this prestigious award annually since the year 2002.

Mina Abdulla Refinery

The refinery throughput during the current fiscal year totaled around 96.61 million barrels at the average rate of 264 thousand barrels per day, compared to 97.7 million barrels and the average daily rate of 267.7 barrels in the previous fiscal year. This slight decrease was the result of operating one of the Crude Distillation units in less than its usual capacity for a certain period of time.

Products exported from MAB Refinery via the Sea Island totaled 9,740.5 metric tons. On the other hand a total of 3,969,4 metric tons of Coke and other products were exported from Shuaiba Harbour. In all the refinery exports totaled 13.70 million metric tons during this fiscal year showing a slight decrease from last year exports which were around 13. 98 million metric tons of finished products.

The Refinery has developed detailed plans for making all its departments ready for Clean Fuels Project pre-commissioning, commissioning and start up activities. A task force have been created to undertake this mission.

In recognition of its high performance in Health, Safety and Environment protection MAB refinery continued receiving the Gold Medal of M/S RoSPA for the second consecutive year. It was also awarded the Bronze medal of the CEO for HSE performance.

Shuaiba Refinery

Crude oil processed at Shuaiba Refinery amounted during this fiscal year to a total of 61.4 million barrels at the daily average rate of 167.8 thousand barrels, compared to a throughput daily average rate of 186.6 thousand barrels per day in the previous fiscal year 2014/2015.

A total of 5,115.2 thousand metric tons of petroleum products were exported from Shuaiba refinery via its oil pier or from MAA oil piers. Fuels supplied to the local market from the refinery totaled 3,097 million metric tons.

For the first time, an amount of 44 million metric tons of low sulfur diesel have been exported via Shuaiba oil pier, saving a plenty of loading time which was usually wasted in the export from several points.

Similar to other KNPC sites, Shuaiba refinery was awarded with the British Safety Council International Award for its outstanding performance and won RoSPA award owing to its impressive HSE record during the fiscal year.

Oil Refining in the Three Refineries between 2011/2012 - 2015/2016 (1000 Barrels Per Day)

Refinery	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
Shuaiba	177.7	193.9	192.7	186.6	167.8
Mina Abdullah	247	272	255.6	267.7	264
Mina Al-Ahmadi	416.9	451.6	411.9	411.6	425.3
Total	841.6	917.6	860.2	865.9	857.1

Refineries Output

Net petroleum products from the three refineries in the fiscal year 2015/2016 amounted to 42.4 million metric tons showing a slight decrease from their amount in the previous fiscal year which reached 42.7 million metric tons.

Products breakdown in the three refineries and their percentage in the total output are shown in the following table:

Total Production

Product	In the fiscal year 2014/2015		In the fiscal year 2015/2016	
	1000 MT	%	1000 MT	%
Naphtha/Mogas/Reformate	8862.3	20.2	8431.2	19.4
Kerosene/ATK	8231.5	18.8	8411.9	19.4
Gas Oil/ Diesel	11688.2	26.7	11813.2	27.2
Fuel Oil/Residue	10712.8	24.4	10801	24.8
Other Products*	3200.8	7.3	2984.1	6.9
Total Products	42695.6	97.4	42441.4	97.7
Consumption/Loss	1150.8	2.6	1015.6	2.3
Total	43846.4	100	43457	100

* Including LPG, Sulfur, Coke, Bitumen and Propylene.

B-LPG

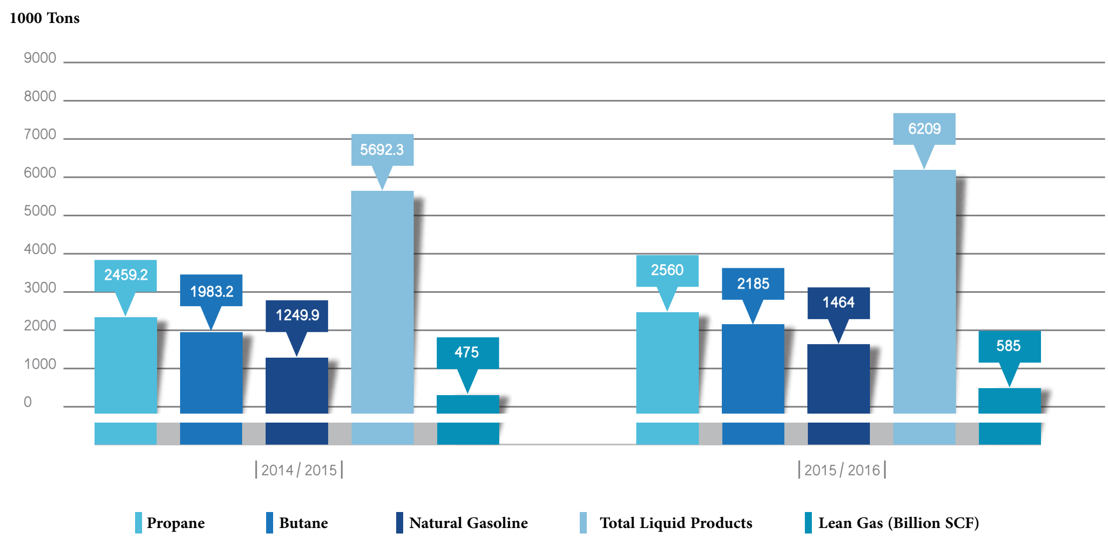
Feedstock to the Gas Plant at Mina Al Ahmadi Refinery amounted during this fiscal year to1,686.7 million cubic feet per day against 1,508.8 million cubic feet a day in the previous fiscal year. This average rate represents the available amounts of gas from the fields as well as from the three refineries.

Total Propane and Butane Exports from the LPG plant amounted to 4,483 thousand metric tons compared to 4,204.6 thousand metric tons in the previous year showing 6.6% increase.

The following table shows amounts and percentage of the LPG products in the fiscal years 2014/2015 and 2015/2016:

LPG Plant Production between 2014/2015 - 2015/2016

Product	2014/2015		2015/2016	
	1000 tons	%	1000 tons	%
Propane	2,459.2	43.2	2560	41.2
Butane	1,983.2	34.8	2185	35.2
Natural Gasoline	1,249.9	22	1464	23.6
Total Liquid Products	5,692.3	100	6209	100
Lean Gas (Billion SCF)	475	-	585	-



• One of MAB Units

Chapter 2

Local Marketing

A-Local Marketing Projects

Projects being implemented by the Projects Departments in the company to upgrade its local marketing services and to render fuels distribution to the local customers more effectively and easily obtained, achieved outstanding progress during this period, as outlined in the following paragraphs:

Expansion and Revamp of Ahmadi Depot

This project is basically designed to upgrade the existing depot near Ahmadi town by installing 11 additional product tanks to double the depot storage capacity. 7 more loading arms will also be added to the depot to facilitate loading process. The project also envisages enhancement of Health, Safety and Environment facility at the depot. The project is in implementation of the recommendation of an ad hoc panel set to study strategic demand on fuel until 2030. Its completion is set in February 2018.

• Expansion & Revamp of Ahmadi Depot

Building More Filling Stations

The company plans to build 19 filling station is well in progress. As a matter of fact, four filling stations have already been completed and commissioned during this fiscal year. Introducing 19 filling stations comes in the framework of the company strategy to build 100 petrol stations in the future to facilitate the fuel distribution to local customers and keep abreast with urban expansion in Kuwait. A visionary design has been adopted by KNPC for the new facilities in order to satisfy the customer needs and cope with the environment requirements.

Al-Mutlaa New Depot

The project envisages installation of 26 multi product storage tanks for the Unleaded Gasoline (95 octane and 91 octane and Gas Oil) in addition to 20 loading arms for the handling of the three products. Several other facilities will be introduced in the new depot including a fire fighting center and a central control room. The scope of the project also includes 3 new cross country pipelines each is meant to deliver one of the three previously mentioned products (Approximately 130 KM each in length) from the refineries to the new depot beside pumps at MAA and Shuaiba refineries.

- The new Depot at Matlaa enjoys special importance for Western and North Western part of Kuwait as it can supply petrol stations in the area, saving a plenty of time and traffic difficulties.
- Meets future strategic stock requirements.
- Provides the northern area with fuel.
- The company will have two depots available to meet the country requirements during emergency or when one of the existing three depots becomes out of service for one reason or another.

Work is progressing as planned and FEED is almost complete.

B-Filling Stations

Four new filling stations were opened in February and March 2016 increasing the number of KNPC owned facilities to 42 stations, after the privatization of 80 filling stations one decade ago.

The new petrol stations, are part of the company short term plan to introduce 19 filling stations to ease pressure on the existing facilities and keep pace with the ongoing urban expansion in the country.

C-Sales

Fuel sales in the local market showed the usual annual increase of around 4% compared to around 4.6% in the fiscal year 2014/2015. Euro 4 gasoline sales dropped in a significant way reaching 13.3% less than their level in the previous fiscal year. However, gasoline sales during this fiscal year showed an overall increase by 3.3% from last year.

Sales to the Ministry of Electricity & Water increased by 10.6 despite the severe drop in Gas oil supplies to the Ministry by 35%.

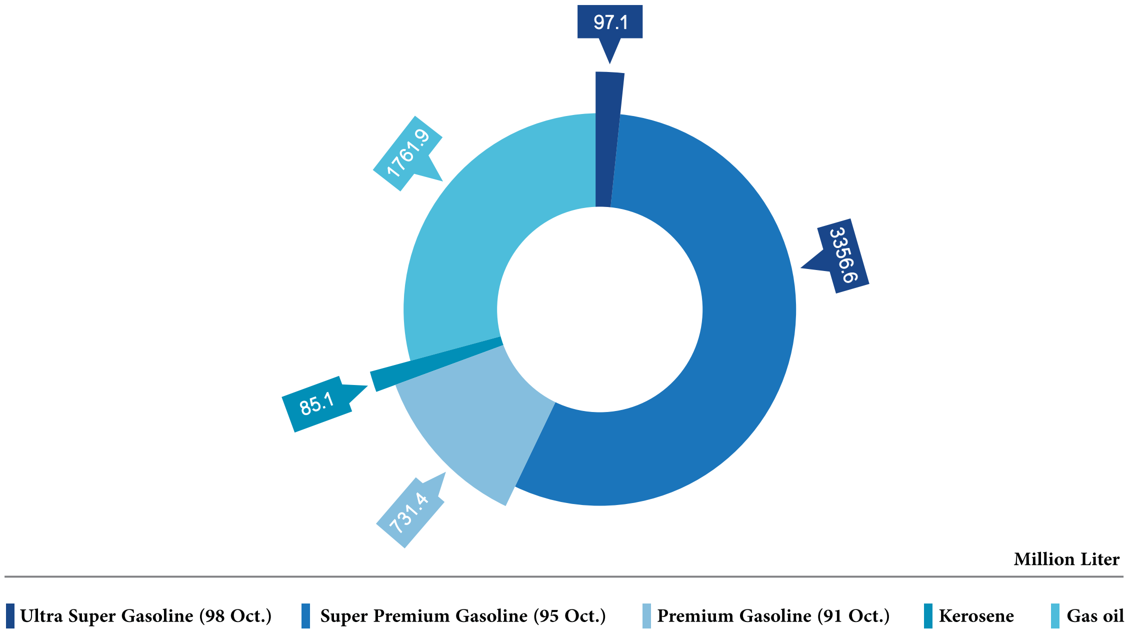
The following tables reflect fuel sales to the local market as well as to the Ministry of Electricity & Water in the fiscal year 2015/2016 compared to their level in the year 2014/2015 beside sale amounts in the past 5 years.

Fuel Sales to the Local Market in 2014/2015 and 2015/2016 (Million Liters)

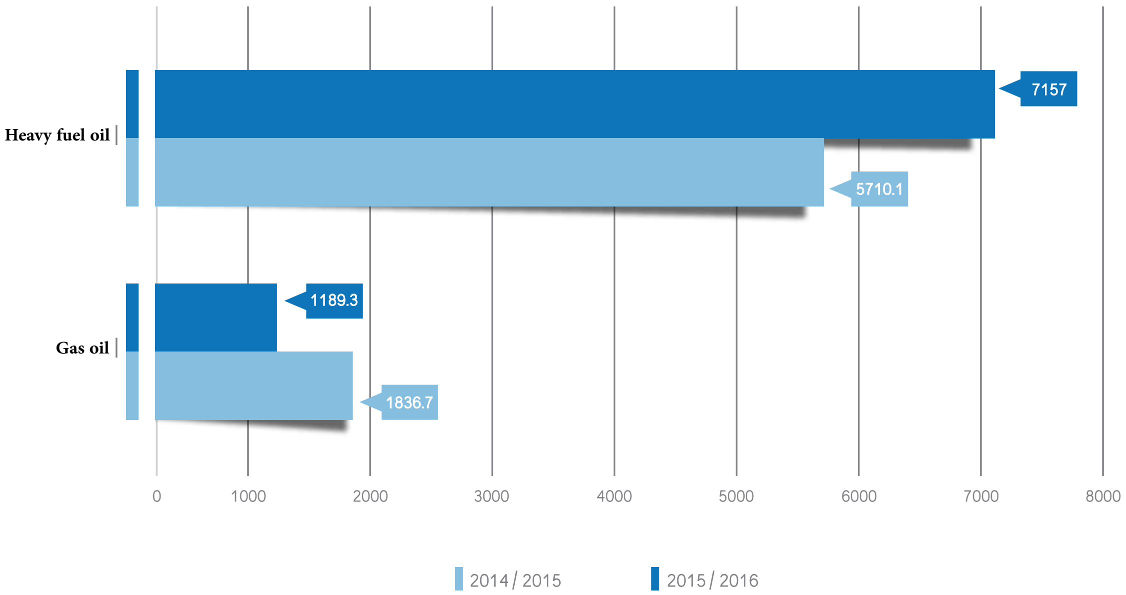
Product	2014/2015	2015/2016	Increase (decrease) compared to 2014/2015 %
Euro 4 Gasoline	0.1	0.1	(13.3)
Ultra Super Gasoline (98 Oct)	94.3	97.1	3
Super Premium Gasoline (95 Oct)	3233.2	3356.6	3.8
Premium Gasoline (91 Oct)	722	731.4	1.3
Total Gasoline Sales	4049.5	4185.2	3.3
Kerosene	87.8	85.1	(3.1)
Gas Oil (Euro4)	0	0	0
Gas Oil (LM)	1662.6	1761.9	6
Total Fuel Sales (LM)	5800	6032.2	4
Gas Oil (ME&W)	1836.7	1189.3	(35.2)
Heavy Fuel Oil (ME&W)	5710.1	7157	25.3
Total Sales (ME&W)	7546.8	8346.3	10.6
Total Fuel Sales	13346.8	14378.5	7.7
Bitumen (Metric Tons)	102149	95359	(6.6)

● Using Solar Panels in Riqqa Filling Station

Fuel Sales to Local Market in 2015/2016



Fuel Sales to Ministry of Elecrical & Water in 2014/2015 - 2015/2016



Fuel Sales to the Local Market in 2011/2012 - 2015/2016 (Million Liters)

Product	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
Euro4 Gasoline*	0.096	0.1	0.1	0.1	0.1
Ultra Super Gasoline (98 Oct)	64.4	74.1	85.1	94.3	97.1
Super Premium Gasoline (95 Oct)	2675.1	2869.4	3021.7	3233.2	3356.6
Premium Gasoline (91 Oct)	837.0	804.8	743.1	722.0	731.4
Total Gasoline Sales	3576.6	3748.4	3850	4049.5	4185.2
Kerosene	63.9	76.2	85.5	87.8	85.1
Euro4 Gas Oil*	0.017	0.01	0	0.0	0.0
Gas Oil (LM)	1595.1	1591.8	1610.7	1662.6	1761.9
Total Fuel Sales (LM)	5235.6	5416.4	5546.3	5800	6032.2
Gas Oil (ME&W)	1688.5	1764.6	1670.7	1836.7	1189.3
Heavy Fuel Oil (ME&W)	5809.1	6329	7099.8	5710.1	7157
Total Sales (ME&W)	7497.6	8093.6	8770.6	7546.8	8346.3
Total Fuel Sales	12773.3	13510	14316.8	13346.8	14378.5
Bitumen (Metric Tons)	180758	167061	92796	102149	95359

* Imported and marketed in 2009 to meet requirements of modern cars.

Chapter 3

Capital Projects

The company is implementing a number of major projects in the refineries and the Local Marketing Department which reached approximately 20 projects, including the two Mega Projects: the CFP and Al Zour Refinery. Progress in the major projects execution is summarized in the following pages:

A-Completed projects

1- Four New Filling Stations

Among the completed projects in this fiscal year was building 4 new filling stations at Ardiya, Waha, Um Al Aish and South Surra. The new facilities increased the number of KNPC petrol stations to 42 and contributed to easing pressure on the existing stations in those areas.

2- New Flare Gas Recovery Unit at MAA

The project's objective is to install a new Flare Gas Recovery Unit designed for handling hydrocarbon flare load at the RMP and FUP areas in the Refinery so that flaring from these two locations is dropped significantly reducing pollution to the environment from these sources. The project was completed in September 2015.

3- Upgrade of Obsolete Fire Detection, Alarm and Suppression Systems including Phase out of HALON System

The main objective of this project is to replace the existing Halon system as it is considered a potential threat to the Ozone Layer. It is also accompanied by the complete change of the fire systems in the three refineries and the local marketing including tanks, process areas, substations, central and local control rooms and buildings. The KD 83.7 million is set for overall completion in August 2016.

Phasing out HALON fulfills the State of Kuwait commitment to Montreal Protocol on climate change, in its capacity as one of the protocol signatories.

B-Projects under implementation

1- Clean Fuels Project

The CFP is basically a strategic project designed to expand and revamp Mina Abdulla and Mina Al Ahmadi refineries with a view to improving Kuwait petroleum product specifications, enhancing their competitiveness on the international markets and removing the barriers for their penetration in some important markets across the world. The ultimate goal of the CFP is also to increase the two refineries capacity to 800 thousand barrels a day of high quality petroleum products.

After the ground breaking ceremony on 3rd of March 2015 and completing sites preparation, implementation of the project gained momentum as heavy equipment - Long Lead Equipment - were shifted from storage location and installed in their designated sites in both refineries. 26 of them were installed in Mina Abdulla Refinery while installation of those reactors, and vessels is in progress at Mina Al Ahmadi Refinery. In all the rate of the project implementation reached by end of this fiscal year 2015/2016 around 50%. The overall project is set for completion in April 2018 at the sanctioned budget of KD 4,680 millions.

● Work Progress of CFP

2- Al Zour Refinery Project

Al Zour refinery is another strategic project being implemented by KNPC and KPC with a view to processing 615 thousand barrels of Kuwait crude oil per day. The highly sophisticated refinery will supply power generation plants with 225 thousand barrels per day of low sulfur content (less than 1%) fuels. The remainder of the refinery throughtput will be exported to the world markets owing to their enhanced competitiveness thanks to the sophisticated technology of the new refinery. The project contract was signed with the five winning alliances on 28 October 2015. Site preparation is almost complete (90.82%) by end of the fiscal year 2015/2016. Some of the site parts have already been handed over to the contractors. The whole project will be completed in December 2019.

3- LNG Import Facilities at Al- Zour

This huge project comes in compliance with KPC directives in the course of its strategic plan for 2030. It is designed to secure gas supplies from foreign sources to meet demands of local power plants especially in summer. The projected facilities are designed for receiving and regasification of LNG shipments before injecting them in the local gas pipeline network to guarantee feed for the power stations especially at the time when demand on electrical energy reaches its climax in the summer months.

The project's scope of work includes building a number of storage tanks and other utilities. Winners of the project tenders were three alliances and the contracts with them were signed on 30 March 2016. The whole project is set to complete in February 2021.

4- New Tail Gas Treatment(TGT) Unit at MAA Refinery

The project is designed to install a new TGT unit parallel to the existing one along with sour Gas absorber and new regenerator in the Further Upgrading Project -FUP- block of MAA Refinery to process the entire Tail Gas produced in the upstream Sulfur Recovery Units and meet the emission requirements specified by the Environment Public Authority (K-EPA). Contract was signed in July 2012 and the project is set for completion in September 2016.

5- Sulphur Handling Facilities Project at MAA Refinery

The objective of this KD 250 Million project is to revamp the existing facilities and increase their treatment capacity.

-Increase the transfer rate and thereby cut short ship loading time.

-Utilize larger ships for sulphur loading.

-Meet K-EPA requirement beside enhancing safety aspects.

The project was spread into two phases and its overall scope of work is expected to be complete by August 2018.

● Signing LNG Import facilities the contact of Establishity

6- Fifth Gas Train Project at MAA Refinery

The fifth Gas Train project is designed to achieve the same results of the 4th gas train, processing around 805 cubic feet per day of gas feed stock and 106 thousand barrels a day of condensates. The new gas liquefaction units (4^{th} & 5^{th}) will raise the LPG plant capacity to a total of 3.3 billion cubic feet a day and meet the growing demand on gas procession in view of the growing gas production from upstream fields and KNPC refineries. Beside their economic value of manufacturing hydrocarbon resources for marketing purposes, they will serve an important environmental goal as they prevent flaring the gas amounts thus increasing pollution of the atmosphere. The Project contract, of KD 428 million, was signed on 17th June 2015 and work commenced one month later achieving at the end of this fiscal year 26.7% of the total implementation. The project is set for completion in July 2019.

7- Northern Gas Tank Farm Project at MAA

This project has a strategic quality as it is designed to enable the company secure storage and export of the increasing amounts of gas processed at the new units of LPG plant in Mina Al Ahmadi Refinery, and upstream fields of KOC and KGOC as stipulated in KPC strategic plans. The project envisages replacing tanks and reinstallation of 10 new well equipped storage tanks (5 for Butane and 5 for Propane) at the capacity of 72,350 cubic meter each. Real progress has been realized so far in the tanks installation and the overall project is set to complete in March 2018. Over 87% of the Project are completed at the end of this fiscal year.

● New Gas Tanks in MAA

8- Replacement of Old & Obsolete Control Systems in MAA Refinery

The project aims at replacement of 18 Control Systems which are old and rather obsolete in technology to the extent that their repair or support have become out of reach even for the manufacturers.

The project scope of work included installing a state-of-art System at MAA Refinery and all other associated works.

Work commenced on June 2015 and the overall project, with KD 16.1 billion expected cost, is due to complete by June 2016.

• Sulfur Handling facilities at MAA

Chapter 4

Health, Safety & Environment

Health

The company interest in promotion of health awareness among the employees in different work sites was maintained and even enhanced throughout this fiscal year. This interest, in fact, was not limited to the company sites only but it was extended to cover some segments of the community in collaboration with the Ministry of Health and other departments.

The HSE Department continued its usual campaigns for blood donation, and as usual KNPC came on top of the blood donors. The Ministry of Health praised the company output of blood units supplied to the Blood Bank.

In the course of its awareness promotion, the Company organized for the first time outside its sites, a full day health activities at Fahaheel industrial area during which all possible health services were provided to the workers and employees in that area beside the medical counsel on handling health problems which may emanate from their profession. Specialists were also on hand to answer inquiries of this group of people who come from different backgrounds and lived in different cultures. Such activities were only parts of a wide range of catered services to the community which reflected the company social commitment.

The HSE Department, in collaboration with the Corporate Communication Department arranged dozens of awareness campaigns at different work sites especially at KNPC Head Office on common diseases and other health problems. Among those campaigns were lectures on Irritable Bowel Syndrome and Colon diseases, defeating obesity, skin care, plastic surgery, benefits and hazards, distress and many others. Specialists from the Ministry of Health or the private clinics were hosted at those lectures to deliver key speeches and interact with the attendees who usually fill the auditorium, on how to treat those illnesses, or live and coexist with them.

The HSE also arranged a one week campaign for all company and the contractor employees on hearing protection and the noise hazards.

• Health Awareness Lecture

Industrial Safety

The company upholds safety of people and installations as top priority. That is why safety programs as well as audits, are implemented on constant basis to make sure that safety standards are respected and literally implemented by the company and the contractor employees. The three refineries, the Projects Departments, the Local Marketing and the contactors continued to achieve millions of man-hours without LTI cases.

Out of the company concern for the public safety in the refineries, it has started a short term project to construct 16 buildings in the refineries for the operators safety. The new buildings will be blast resistant and relatively in remote locations from possible explosion sources. The project implementation commenced in December 2015 at the cost of around KD 8 million.

Furthermore, the refineries continued their safety drill programs which is designed to test preparedness of apparatuses and personnel to deal with hazards and possible emergency situations. Safety training programs were also conducted during this fiscal year for selected groups of employees and contractor laborers at the company various sites.

Furthermore, the company Safety Training Center at Mina Al Ahmadi Refinery continued providing training courses and programs to thousands of the company and the contractor employees.Those programs were basically intended to make safety behavior as a habitual conduct whether on job or in daily life and highlight the importance of strictly applying the approved safety standards and regulations.

Environment

The company serious efforts to enforce environment protection concepts in the three refineries, its other work sites and the communities around the refineries continued during this year. Those efforts which were designed to cut down Green Gas Emissions to the lowest possible degree, achieved good results during the year, as reflected in combating pollution at its very sources, the fight against oil spills and implementation of a number of projects aimed at cutting down Gas emissions in the refineries. They were highly instrumental in improving environmental conditions in those areas. Among the projects being implement to reduce gas emissions are the following:

New Acid Gas Treatment Unit and Rehabilitation of the Existing Unit-MAA

The new Unit is intended to treat the expected amounts of acid gases from KOC fields, beside revamp of the existing unit. It goes in line with KPC strategy which aims at cutting down gas emission to less than 1% and thereby reduce pollution significantly. The project was originally set for completion in 2015. However, due to delay in procurement of materials and other obstacles, it was extended until October 2018. The approved cost for this project is KD 250 million.

Tail Gas Treatment Unit TGT at MAA

The project is designed to install a new unit for treatment of tail gas produced at the Sulfur Recovery Unit in the Further Upgrading Project area-FUP-at Mina Al Ahmadi Refinery with a capacity of 460 tons of sulfur per day. Other equipment for removal of HSR-90 will be also installed within this unit.
The whole project is designed to bring about significant cuts in pollutant gases, reduce gas emissions in the atmosphere and avoid possible harm to the environment. The project will also meet the requirements of K-EPA which limit the rate of carbon dioxide to less than 250 ppm.
The project is nearing completion and is expected to be commissioned in September 2016.

Flare Gas Recovery Facilities in Unit - 49 MAB

The project's prime objective is to stop flaring through the main flare system, reduce gaseous emissions and at the same time cut down hydrocarbon losses. The project serves two purposes: environmental and economic and thereby fulfills KPC and KNPC strategy for environment protection. Beside its anti-pollution value, the recovered gases are hydrocarbon resources of market value.

The project was listed on the Clean Development Mechanism (CDM) site as one of the State of Kuwait Projects. Implementation of this project is well underway and it is expected to be completed in March 2018.

● New Acid Gas Treatment Unit at MAA

Water Treatment

Sea water is being used for cooling purpose in the three refineries. However, the used effluent is treated at the newly installed Effluent Treatment Facilities at Mina Abdulla Refinery. The technology of water treatment not only strips the effluent from oil but also removes all pollutants in this large quantity of water so that it becomes suitable for multi - purpose use.

Prizes Earned by KNPC

- The company arranges a special event every year to celebrate HSE achievements throughout the fiscal year, under the title of CEO Award for HSE Competition. The Public and civil society groups are invited to contribute their HSE projects and ideas and join the company and contractor employees in the competition.
- The company various sites continued earning award of the Royal Society for Prevention of Accidents (RoSPA). Mina Abdulla Refinery which has been receiving this prize since 2002, was awarded this year with the President's Gold medal in recognition of its outstanding HSE performance. Local Marketing Department was also awarded the Gold RoSPA medal this year.
- The company was also awarded with the British Safety Council - Merit prize in appreciation of its overall safety performance in the years 2015 and 2016.
- KNPC won the first place in the best three applications contest based on Solar Energy for introducing the application of sustainable energy at two of its petrol stations. The contest was part of the activities of Kuwait Conference and Exhibition for Sustainable Energy. The application of sustainable energy in the petrol stations came in the framework of the company efforts to expand utilization of these resources in fulfillment of His Highness the Amir Sheikh Sabah Al Ahmad Al Jaber Al Sabah vision to secure 15% of Kuwait power consumption from sustainable sources by the year 2030.
- KNPC won the award of Kuwait Foundation for the Advancement of Science – KFAS - for the electronic content at the State of Kuwait level which conforms to KFAS endeavors to encourage information technology in the country. Kuwait Electronic Award was launched under the patronage of His Highness the Amir, Chairman of the Foundation Board of Directors. It meets His Highness directives to motivate and encourage scientific creativity in the technological domains, and to provide the youth with the proper environment that will help them qualify to compete at the international platforms and promote the good image of their country at those platforms.
- The Downstream Magazine named KNPC CEO as one of the most influential 50 personalities in the Middle East in the oil refining and petrochemical industries. The Magazine said Kuwait National Petroleum Company is one of the leaders in the downstream sector which is gaining momentum at the international level.

The Magazine described the projects being implemented by KNPC as amongst the biggest projects in the world notably the Clean Fuels Project and Al Zour Refinery Project, and a number of other projects which are executed according to the most sophisticated technology in the industry field.

- The annual Oil & Gas Year Magazine also honoured the company CEO as "Man of the Year" in oil and gas industry. This honoring attested to the prestigious position KNPC enjoys at the international level due to its numerous outstanding achievements.

Chapter 5

Performance Improvement Achievements and Initiatives

A number of technical or economic achievements were realized by the company departments which enhanced their performance and improved the company profitability. Some of those achievements and initiatives are outlined in the following:

- The special committee of Cost Optimization & Profit Improvement (COPI), headed by the CEO and comprising the 7 DCEOs, continued its endeavors to cut expenses and increase profitability. The Committee launched a number of implementable and effective initiatives which generated over US$ 230 million in net prfit. Those efforts proved to be quite viable in facing the challenge of oil prices decrease which automatically led to a serious drop in petroleum product prices.

- Building more Petrol Stations in different parts of the country is highly recommended by KPC. As a matter of fact recent studies revealed the need for more fuel retail outlets in the country over the coming years, to meet the growing demand resulting from urban expansion. KNPC has developed plans to continue building more petrol stations in the upcoming years in order to ease pressure on the existing facilities and render refueling vehicles much easier, less effort and time saving. The new filling stations will introduce more services to the customers than refueling their cars.

- A Memo of Understanding has been signed between KNPC and KOC under which Kuwait Oil Company will be supplied with around 3 million gallons per day of water treated at Effluent Treatments Facilities at the refineries to use this amount in its operations. Treated effluent at KNPC refineries are usable for many purposes including plants irrigation.

- Research and Technology Department at KNPC in collaboration with Kuwait University, launched a Higher Education Program intended to support KNPC employees who enrolled in Master Degree studies while continuing their jobs in the company. This program covers environment, science and mechanical and chemical engineering studies at Kuwait University. The program ultimate goal is to provide the company with high caliber skills to face operational challenges in their area and at the same time be a motivation to other employees.

- The Projects Departments established the Best Practice Committee with members from KNPC, KPC, KGOC, PIC & KOC for sharing knowledge and experience regarding the best practices in the oil projects and the lessons learnt during their launch and progress.

- The two Projects Departments (PDI & PDII) launched across all KNPC departments an initiative under the slogan of "Share Your Idea" which provides the company employees with the opportunity to contribute ideas for consideration and possible implementation. A special panel from the company will screen the ideas and judge upon their viability.

- The company organized on 15.4.2015 the Consultancy Companies Forum which was attended by representatives of all oil sector companies in line with the company strategic decision to support the local product and contribute to the establishment of the Unified Consultancy Council which will comprise representatives of all oil companies, in addition to local contractors and suppliers. The Forum's main objective was to facilitate joint work between the oil sector and the private sector businesses and remove obstacles that may hinder their fruitful cooperation. Among the subjects that were raised for discussion in the Forum were the chances for the private sector to take a part in oil sector vital projects and the necessary services to the oil sector that can be catered by the private businesses. This cooperation will activate the domestic economic activities. The Forum also discussed the Companies Qualifying System to join KNPC tenders as well as the existing Electronic Tendering System.

- The strategic Study for increasing the local content has been completed. The study was assigned to KNPC by Kuwait Petroleum Corporation to be carried out by a team headed by Commercial Department Manager. The team has focused on two initiatives:

  - The first one was to formulate a framework for cooperation between the government, the oil sector and the local industrial sector, with a view to upgrading this cooperation and increasing the domestic content in the oil project.

  - The second initiative covers reaching a unified classification of the materials required by the oil companies in the future and defining the opportunities for increasing the local elements in their supply.

- KNPC organized the Kuwait 2nd Industrial Automation & Control Systems Cyber Security Conference (KIACS) which was designed for industrial data protection. The conference supervised by Information Technology Department in the company and witnessed outstanding participation by industrial companies in the Gulf, provided an effective platform for exchange of information and expertise regarding the security methods and practices that can be employed to protect IT systems in the industrial fields. The ultimate goal of the conference was to shield the industrial companies against possible hacking of their systems.

  A selection of renowned experts from different parts of the world were invited to address the 3-day conference. The company also arranged an exhibition on the sidelines of the conference which was joined by a number of local and regional companies.

● A Lecture on cyber Protection

● KNPC Delegation Receives ROSPA Award

Chapter 6

Human Resources and Career Development

Manpower

Total number of manpower in the company dropped this year by 120 employees and reached 6344 employees compared to a total of 6,464 employees in the previous fiscal year. The number of Kuwaiti employees in the company also dropped by 92 employees to reach a total of 5,513 employees. Nevertheless, their percentage in KNPC overall labour force witnessed a slight increase to reach 86.9%. The company continues its endeavors to attract more competent and promising resources to its labor force and to be enrolled in the downstream industry. The company continued applying effective methods and incentives to recruit talented and experienced Kuwaiti engineers in the oil refining industry.

The company appointed in this fiscal year 206 employees, 158 of them were Kuwaiti nationals.

Among the company achievements in the manpower growth, was implementation of KPC initiative related to the employees performance, bonus and incentives in the oil sector. The HR Department completed during this year a total of 1,932 promotions to fill a large number of vacancies.

• Operations Employees Recieve Directives

The following two tables give a breakdown of the company total manpower as per nationality and worksites. They also illustrate the changes which occurred over the year.

Breakdown of Employees by Department and Changes in this Period

Department	31/3/2015			31/3/2016		
	No. of Employees	Kuwaiti Manpower		No. of Employees	Kuwaiti Manpower	
		No	%		No	%
Head Office*	1071	932	87.02	1054	962	87.86
Local Marketing	327	308	94.19	313	296	94.57
Health Safety & Environment	188	87	46.28	176	78	44.32
Security & Fire	895	887	99.11	851	843	99.06
Shuaiba Refinery	895	741	82.79	818	677	82.76
Mina Abdulla Refinery	1129	981	86.89	1194	1039	87.02
Mina Al-Ahmadi Refinery	1955	1665	85.17	1936	1652	85.33
Sub-Total	6460	5601	86.70	6342	5511	96.90
POW	3	3	100	2	2	100
Requalifications	1	1	100	-	-	-
Sub-Total	4	4	100	2	2	100
Pre-Employment Qualification Programs	-	-	-	-	-	-
Frozen	-	-	-	-	-	-
Grand Total of KNPC Staff	6464	5605	86.71	6344	5513	86.90

* Including Top Management, Legal Department, Corporate Planning, Corporate Communication, IT, Human Resources, Finance, General Services, Projects Departments, Al-Zour Refinery Project, Clean Fuels Project, Commercial Department, Training & Career Development, R&T, MOG, Engineering & Project Management and Al-Zour Project.

Total Manpower Growth at KNPC

2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
5235	5324	5447	5562	5880	5805	6644	6464	6344

Training and Career Development

- The company implements every year an extensive career development and training program with a view to upgrading skills of its employees. This training program covers all company employees as every employee is entitled to undergo a certain number of training hours per year.

  Training courses are regularly carried out in Kuwait or outside the country and conducted by renowned local and international organisations. KPC Petroleum Training Center (PTC) also plays a key role in the training policy of the oil sector including KNPC. The PTC utilizes international expertise in their development programs.

  Local training courses amounted this year to 339 courses attended by 3093 employees. External training courses and programs also totaled 449 courses joined by 1572 employees. PTC courses were joined by 4716 employees from KNPC. This large number of training courses reflected the great attention KNPC is giving to the development of its employees skill.

- The Structural on Job Training program (S-OJT) being implemented by the company to the benefit of the newly recruited engineers, was the program that deserves praise as competitor No. 1 in the Oil & Gas Conference in the Training Initiative Category for the year 2015.

  Around 143 engineers completed their training under the S-OJT program this year increasing the number of engineers who benefited from this program to 394 employees.

- KNPC participated in the Annual Conference for Leaders Development (K-LEAD) arranged by Kuwait Petroleum Corporation under the motto of "Future of World Oil: Economies, Alternatives and Geopolitical Factors." This conference was meant to be a part of leaders training in the oil sectors. It was attended on the part of KNPC by the Chief Executive Officer, the DCEOs and a number of the department managers. Prominent specialists in the oil industry delivered lectures at the conference on a wide range of topics particularly Renewable Energy and Sustainability in the oil industry.

- The training and Career Development Department in the company also continued its annual tradition of providing sons and daughters of the company employees who are studying at university with the opportunities to follow a summer training program at the company. Eleven students completed their training at the companie's various departments this year.

KNPC Employees According to Nationality

Nationality	Number of Employees			Percentage of Total Manpower		Percentage of Increase (decrease) %
	31/3/2015	31.3.2016	change	31/3/2015 %	31/3/2016 %	
Kuwaitis	5605	5513	(92)	86.70	86.90	(1.64)
Other Arab Nationals	225	119	(26)	3.84	3.14	(11.56)
Sub total	5830	5712	(118)	90.18	90.04	(2.02)
Non-Arabs	634	632	(2)	9.82	9.96	(0.32)
Total	6464	6344	(120)	100	100	(1.86)

Chapter 7

Corporate Social Responsibility

Kuwait National Petroleum Company has always been interacting with the community it is operating in, and cooperates with the civil society groups including the use of different channels as well as the social media which is playing a leading role in the media structure. Examples of the company social commitment are in line with the its mission and values.

- For years, the company has been implementing a program with the Ministry of Education under which visits are paid to the Ministry schools where employees of different departments conducted various activities including presentations about the oil industry basics and the importance of environment protection and other safety measures.

- The company took part in the ceremony held at the UNDP headquarters on May 7th, 2015 to celebrate the conclusion of the Anti-Bullying program at schools. This program which lasted for over one year was financed and co-implemented by KNPC and in collaboration with the UNDP and Kuwait Red Crescent Society.

  It included lectures and training sessions by specialists for a number of students who volunteered to join it, in addition to a promotion program

- The company joined the Annual Forum of the universities and institutions with representatives of the oil sector which convened at one of the schools. It was attended by a large number of the secondary school students for whom presentations were conducted about the company core business and the potential opportunities that will be available in refining industry.

● KNPC Visits a Kindergarten

- Under the Patronage of His Highness the Crown Prince, the company joined the campaign to set free 6500 of cultured fish in the sea opposite the KPC building. The campaign was originally initiated by Kuwait Institute for Scientific Research. Which was intended to set free 120,000 cultured fish in the sea of the two species Sbaiti and Shaam (Black Sea bream and Finned Black sea bream) to enrich marine life and increase fish resources in Kuwait Bay.

- KNPC contributed to the logistic and financial support to illumination of Sabah Al Ahmed Heritage Village on Salmi Highway. The village is a heritage preserving project for which the company has undertaken of providing it with necessary lighting.

- In keeping with its tradition, the company held the annual festival of "Celebrate Your Ability" at the company club. The event is meant to show the company care for children of special needs. Scores of handicapped children attended the ceremony this year along with their parents and supervisors at their schools. It was, as usual, a good opportunity for those children to exhibit their talents in drawing, handicraft and other artistic activities. The company senior officials attended the ceremony beside a number of employees who volunteered to help and look after the children.

- Corporate Communication Department assigned its employees to visit sick children at certain hospitals, spend some time with them and give them gifts especially on religious occasions. This gesture also attracts volunteers from the company various departments.

- KNPC arranged the annual contest in Painting & Photography for the CEO Award, which was this year open for the public to join the company employees and compete with them for the CEO Award. It was another expression of the company interaction with its stakeholders and an attempt to add to the cultural production in Kuwait. Over 100 painting and pictures participated in the competition which were evaluated by a panel of Kuwaiti Artists.

- The company seizes the advent of the holy month of Ramadan to implement a number of activities related to the spirituality of this month. Among those activities was the Ramadan Tent at the company main office where free Iftar meals are served to nearly one thousand people a day. The company allows employees of the oil sector to co-finance this service as a charitable contribution.

- The company also held the annual contest for recital and memorization of the Holy Quran, for children of the oil sector employees. This contest is always arranged in coordination with the Ministry of Awqaf and Islamic Affairs.

- "Let Us Keep It Clean" was the motto raised by the company campaign to clean horse barns and camping sites in Mina Abdulla area on 3rd of April 2016. This effort came in the framework of the company environmental campaigns to clean the desert after the camping season in the country which routinely leaves tremendous amounts of wastes. Participants in the campaign were instructed to do waste segregation on site and keep the wastes in plastic bags. A large number of KNPC employees, from different calibers, volunteer to get involved in those desert cleaning campaigns.

Conferences and Exhibitions

- The company participated in the Forum held by Kuwaiti Graduates at Japan-Petroleum Cooperation Centre. This Center has provided training for hundreds of Kuwaitis in the oil sector, 400 of them belong to KNPC. The graduates supplied the company with valuable expertise and many of them succeeded in occupying key positions in the company. The Cooperation Centre provides trainees with extremely specialized programs according to the requirements of their companies. Senior officials from the oil companies attended the Forum as an expression of the strong ties between the oil sector and the Japanese Centre.
- KNPC participated in Kuwait Sustainable Energy Conference and Exhibition and joined the Seminar arranged in the conference which focused on the activities of KPC in the fields of projects and studies for sustainable energy.
- The company took part in Kuwait 2nd Oil & Gas Conference - 2015 in which lectures and working papers were submitted. The conference was distinguished for its impressive debates and was ranked among the major event in relation to oil and gas industry.
- KNPC arranged in a great deal of success the Kuwait 2nd Industrial Automation & Control Systems Cyber Security Conference (KIACS) in 2015 which was received with great interest in the wake of the growing attacks on information systems of the oil sector.

● CEO Speech at KOGS.

Chapter 8

Financial Report

Financial Report

The consolidated statements incorporated in this report present fairly the position of the company in the fiscal year ending on 31/3/2016 compared to the previous fiscal year ending on 31/ 3/ 2015. The company assets shown in the balance sheet totaled KD 6,339,087,048 against KD 4,492,101,018 in the fiscal year ending on 31/3/2015 showing an incaese of KD 1,846,986,030.

Revenues

The company revenues totaled KD 6,763,392,397 showing a decrease of KD 4,241,322,078 from previous year total figure as represented in the following breakdown:

Description	2014/2015	2015/2016
Oil Refining Revenues	8,444,192,179	5,211,711,197
Gas Liquefaction Revenues	2,521,280,939	1,532,133,083
Lube Oil & Carwash Revenues	283,608	306,998
Other Revenues	38,957,749	19,241,119
Total Revenues	11,004,714,475	6,763,392,397

* It covers revenues from interests on deposits of foreign currencies, return on investment in sister company, sales of spent catalysts, obsolete materials, assets and rents.

The company also continued to market petroleum products on behalf of Kuwait Petroleum Corporation which amounted during the year to KD 370,318,342 compared to the products marketed in the previous fiscal year and totaled KD 351,534,298.

Profits and Losses:

The company operations in the fiscal year 2015/2016 revealed a net profit of KD 175,697,195 compared to a net profit in the previous fiscal year of KD 43,945,669.
The following is a breakdown of the company profits/losses in accordance with its various activities:

Description	KD
Profits (Losses) Resulting from Oil Refining & Gas Liquefaction	156,345,822
Profits (Losses) Resulting from Local Marketing activities	175,955
Other Revenues	19,241,119
Allocation for Obsolete Material	-
Directors Remuneration	(65,700)
Total Profits (Losses)	175,697,195

KUWAIT NATIONAL PETROLEUM COMPANY K.S.C.

FINANCIAL STATEMENTS

31 March 2016

Contents

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18-21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2 295 5000
Fax: +965 2 245 6419
kuwait@kw.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF KUWAIT NATIONAL PETROLEUM COMPANY K.S.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Kuwait National Petroleum Company K.S.C. (the "Company"), which comprise the statement of financial position as at 31 March 2016, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors' consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF KUWAIT NATIONAL PETROLEUM COMPANY K.S.C. (continued)

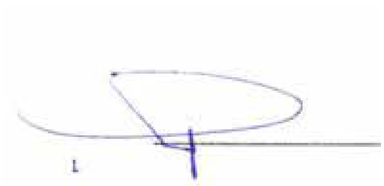
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Company and the financial statements, together with the contents of the report of the 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 the Companies Law No. 1 of 2016, the executive regulation of Law No. 25 of 2012 and by the Company's Memorandum of Incorporation and Articles of Association, 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, the executive regulation of Law No. 25 of 2012 or of the Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 March 2016 that might have had a material effect on the business of the Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS



15 May 2016
Kuwait

STATEMENT OF INCOME

For the year ended 31 March 2016

	Notes	**2016** KD '000	2015 KD '000
Revenue	5	**6,744,151**	10,965,757
Cost of sales	6	**(6,439,500)**	(10,789,683)
GROSS PROFIT		**304,651**	176,074
General and administrative expenses	7	**(148,129)**	(171,026)
Other income	8	**5,489**	37,293
Share of results of an associate	11	**13,562**	901
Interest income		**133**	78
Foreign exchange gain		**57**	686
PROFIT BEFORE BOARD OF DIRECTORS' REMUNERATION		**175,763**	44,006
Board of directors' remuneration	22	**(66)**	(60)
PROFIT FOR THE YEAR		**175,697**	43,946

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

	2016 KD '000	2015 KD '000
Profit for the year	**175,697**	43,946
Other comprehensive income to be reclassified to the statement of income in subsequent periods:		
Foreign currency translation adjustment (Note 11)	**697**	6,773
Other comprehensive income for the year	**697**	6,773
Total comprehensive income for the year	**176,394**	50,719

STATEMENT of FINANCIAL POSITION

As at 31 March 2016

	Notes	2016 KD '000	2015 KD '000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**3,492,036**	2,179,821
Long term receivable from the Parent Company	10	**130,000**	130,000
Investment in an associate	11	**123,903**	109,644
Deferred expenses	12	**17,912**	21,536
		3,763,851	2,441,001
Current assets			
Inventories	13	**316,369**	456,235
Trade receivables	14	**26,805**	26,289
Due from related parties	15	**1,641,895**	1,080,609
Other receivables and prepayments	16	**573,201**	421,617
Bank balances and cash	17	**16,966**	66,350
		2,575,236	2,051,100
TOTAL ASSETS		**6,339,087**	4,492,101
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**1,587,000**	260,000
Statutory reserve	19	**147,570**	130,000
Foreign currency translation reserve		**10,396**	9,699
Total equity		**1,744,966**	399,699
Non-current liabilities			
Financing advances due to the Parent Company	20	**3,606,708**	3,569,249
Employees' end of service benefits	21	**224,456**	189,762
		3,831,164	3,759,011
Current liabilities			
Trade payables		**5,617**	3,119
Other payables and accruals	22	**577,946**	254,207
Dividends payable	23	**158,127**	43,946
Due to a related party	15	**21,267**	32,119
		762,957	333,391
Total liabilities		**4,594,121**	4,092,402
TOTAL EQUITY AND LIABILITIES		**6,339,087**	4,492,101

Hosnia Hashim

for Jamal Al-Nouri
Chairman

Mohammad G. Al-Mutairi
Chief Executive Officer

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2016

	Share capital KD '000	Statutory reserve KD '000	Foreign currency translation reserve KD '000	Retained earnings KD '000	Total equity KD '000
At 1 April 2015	260,000	130,000	9,699	-	399,699
Profit for the year	-	-	-	175,697	175,697
Other comprehensive income	-	-	697	-	697
Total comprehensive income for the year	-	-	697	175,697	176,394
Increase in share capital (Note 18)	1,327,000	-	-	-	1,327,000
Transfer to reserve	-	17,570	-	(17,570)	-
Dividends (Note 23)	-	-	-	(158,127)	(158,127)
At 31 March 2016	**1,587,000**	**147,570**	**10,396**	**-**	**1,744,966**
At 1 April 2014	260,000	130,000	2,926	-	392,926
Profit for the year	-	-	-	43,946	43,946
Other comprehensive income	-	-	6,773	-	6,773
Total comprehensive income for the year	-	-	6,773	43,946	50,719
Dividends (Note 23)	-	-	-	(43,946)	(43,946)
At 31 March 2015	260,000	130,000	9,699	-	399,699

 The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 March 2016

	Notes	2016 KD '000	2015 KD '000
OPERATING ACTIVITIES			
Profit before board of directors' remuneration		**175,763**	44,006
Adjustments for:			
Depreciation	9	**43,273**	43,666
Amortisation of deferred expenses	12	**14,722**	14,969
Share of results of an associate	11	**(13,562)**	(901)
Gain on sale of property, plant and equipment		**(192)**	(616)
Gain on sale of amortised catalysts	8	**(607)**	(315)
Provision for employees' end of service benefits	21	**76,522**	109,599
Interest income		**(133)**	(78)
Foreign exchange gain		**(57)**	(686)
Reversal of allowance for obsolete inventory	13	**(4,733)**	-
		290,996	209,644
Working capital adjustments:			
Inventories		**133,501**	252,269
Trade receivables		**(516)**	(3,013)
Due from related parties		**(645,941)**	(709,547)
Other receivables and prepayments		**(151,584)**	(334,065)
Trade payables		**2,498**	878
Other payables and accruals		**323,790**	66,113
Due to a related party		**(10,366)**	6,790
Cash flows used in operations		**(57,622)**	(512,661)
Employees' end of service benefits paid	21	**(41,828)**	(102,876)
Board of directors' remuneration paid		**(60)**	(63)
Net cash flows used in operating activities		**(99,510)**	(613,870)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	**(1,356,800)**	(503,347)
Proceeds from sale of property, plant and equipment		**192**	618
Proceeds from sale of amortised catalysts		**607**	315
Interest received		**133**	78
Net cash flows used in investing activities		**(1,355,868)**	(502,336)
FINANCING ACTIVITIES			
Financing advances received from the Parent Company	20	**1,405,994**	1,136,248
Net cash from financing activities		**1,405,994**	1,136,248
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(49,384)**	20,042
Cash and cash equivalents at 1 April		**66,350**	46,308
CASH AND CASH EQUIVALENTS AT 31 MARCH	17	**16,966**	66,350

The attached notes 1 to 30 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

1. CORPORATE INFORMATION

Kuwait National Petroleum Company K.S.C. (the "Company" or "KNPC") is a Kuwaiti shareholding company established in 1960 engaged in oil refining activities including the manufacture of liquid petroleum gas. The address of the Company's registered office is P.O. Box 70, Safat 13001, Kuwait.

The Company is a wholly owned subsidiary of Kuwait Petroleum Corporation (the "Parent Company"), a company wholly owned by the State of Kuwait.

The Company buys crude oil and feedstock from the Parent Company for refining and sells the refined products primarily to the Parent Company. Prices for these transactions are determined in accordance with a supply agreement between the Company and the Parent Company.

The Company also distributes petroleum products within the State of Kuwait on behalf of the Parent Company in addition to providing other fuel station ancillary services. Approximately 99% (2015: 99%) of the Company's revenue is earned from the Parent Company.

The financial statements of the Company for the year ended 31 March 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 15 May 2016. The Parent Company has the power to amend these financial statements after issuance at the Company's Annual General Assembly.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 of November 2012, the executive regulation of Law No. 25 of 2012 will continue until a new set of executive regulation is issued.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the Company are prepared under the historical cost basis and are presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

2.2 STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue from sale of refined products and liquefied petroleum gas is recognised in the statement of income when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realised within twelve months after the reporting period.

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle.
- It is held primarily for the purpose of trading.
- It is due to be settled within twelve months after the reporting period.

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

Property, plant and equipment

Property plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Freehold land and assets under construction are not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable asset as follows:

Tanks, pipelines and jetties	- 25 years
Plant and machinery	- 25 years
Buildings and facilities	- 25 years
Vehicles and transportation equipment	- 5 years
Insurance spares	- 25 years
Other completed assets	- over 5 to 15 years

Items of property, plant and equipment in the course of construction for production, or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognised.

The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

Investment in an associates

The Company's investment in its associate is accounted for using the equity method. An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, the investment in an associate recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of income reflects the Company's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the year ended 31 December, accordingly, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Company's financial statements. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

Distributions received from an associate reduce the carrying amount of the investment.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on the Company's investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of results of an associate' in the statement of income.

Upon loss of significant influence over the associate, the Company measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the statement of income.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

Deferred expenses

Deferred expenses primarily comprise catalysts and are amortised on a straight line basis over their estimated useful lives.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Refined products are valued at the lower of cost and net realisable value. Cost is calculated on an individual product basis, using the cost of crude oil and natural gas supplied with an allocation of processing costs and overheads to each product based on their relative market values. Net realisable value represents selling prices in accordance with the supply agreement with the Parent Company, (See note 1) less all estimated costs of completion and costs necessary to make the sale.

Maintenance and spare parts are not intended for resale and are valued at cost after making allowance for any obsolete or slow moving items. Cost is determined on a weighted average basis.

Crude oil, catalysts, chemicals and other inventories are valued at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items. Net realisable value is based on estimated replacement cost.

Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or financial assets available for sale as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.
The Company's financial assets include long term receivable due from the Parent Company, trade receivables, due from related parties, other receivables, and bank balances and cash.

NOTES TO THE FINANCIAL STATEMENTS
As at 31 March 2016

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

- Loans and receivables.
- Cash and cash equivalents.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in the statement of income. The losses arising from impairment are recognised in the statement of income.

The Company classifies its loans and receivables as long term receivable due from the Parent Company, trade receivables, due from related parties and other receivables.

Cash and cash equivalents
For purposes of the statement of cash flows, cash and cash equivalents includes bank balances and cash.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)
Financial assets (continued)
Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired;

Or

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrowers or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include trade payables, amounts due to related parties and other payables and accruals.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Trade payable and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or 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 the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated.

Impairment losses of continuing operations are recognised in the statement of income in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term.

The Company as a lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Employees' end of service benefits

Provision is made for employees' indemnity in accordance with the Kuwait Labour Law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the amount payable to employees as a result of involuntary termination of employment at the reporting date.

Pensions and other social benefits for Kuwaiti employees 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 charged to statement of income in the year to which it relates.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of income net of any reimbursement.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to KD at rates of exchange prevailing on that date. Any resultant gains or losses are recognised in the statement of income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to KD at the foreign exchange rates prevailing at the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly through other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised in the statement of income are recognised in the statement of income.

2.4 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies used in the preparation of these financial statements are consistent with those used in previous year. The following amendments to IFRSs effective for the annual periods beginning on or after 1 January 2015 did not have any impact on the accounting policies, financial position or performance of the Company.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact on the Company during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Company as it does not receive any management services from other entities.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Company does not apply the portfolio exception in IFRS 13.

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 9 Financial Instruments

The IASB issued IFRS 9 *Financial Instruments: Classification and Measurement* in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission 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 Company is in the process of quantifying the impact of this standard on its financial position or performance.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. The company is in the process of quantifying the impact of this standard on its financial statement.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective. The Company, however, expects no material impact from the adoption of the amendments on its financial position or performance.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the amount of the asset or liability affected in the future.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Classification of assets as loans and receivables depends on the nature of the asset. If the Company is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment provision of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory and the degree of ageing or obsolescence, based on historical experience.

At the reporting date, gross inventories were KD 332,659 thousand (2015: KD 477,258 thousand). Their related provisions for slow moving and obsolete items relating to spare parts and catalyst were KD16,290 thousand (2015: KD 21,023 thousand). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of income.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows.

Estimation of useful lives

The Company determines the estimated economical useful life of property, plant and equipment which requires considerable judgment.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

5 REVENUE

	2016	2015
	KD '000	KD '000
Refined products	**5,211,711**	8,444,192
Liquefied petroleum gas	**1,532,133**	2,521,281
Local marketing sales	**307**	284
	6,744,151	10,965,757

The Company's local marketing sales represent sale of ancillary services and products at service stations.

6 COST OF SALES

	2016	2015
	KD '000	KD '000
Cost of crude oil and gas	**5,955,684**	10,276,154
Staff costs	**263,967**	291,406
Other costs	**163,592**	169,460
Amortisation (Note 12)	**14,722**	14,969
Depreciation (Note 9)	**41,535**	37,694
	6,439,500	10,789,683

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

Included in the cost of sales is KD 131 thousand (2015: KD 100 thousand) which represents the cost of ancillary services and products relating to local marketing.

7 GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
	KD '000	KD '000
Staff costs	134,432	156,425
Other costs	30,860	33,528
Depreciation (Note 9)	1,733	5,967
Recovery of local marketing overheads from the Parent Company (Note 15)	(18,896)	(24,894)
	148,129	171,026

8 OTHER INCOME

	2016	2015
	KD '000	KD '000
Gain on disposal of scrap materials	1,238	299
Gain on sale of amortised catalysts	607	315
Others	3,644	36,679
	5,489	37,293

Included in other income is an amount of KD Nil (2015: KD 21,276 thousands) which represents income received from Ministry of Electricity and Water in relation to a settlement for the use of the Company's LNG import facilities.

NOTES TO THE FINANCIAL STATEMENTS
As at 31 March 2016

9 PROPERTY, PLANT AND EQUIPMENT

	Tanks, pipelines and jetties	*Plant and machinery*	*Freehold land, buildings and facilities*	*Vehicles and transportation equipment*	*Insurance spares*	*Assets under construction*	*Total*
	KD '000	**KD '000**	**KD '000**	**KD '000**	**KD '000**	**KD '000**	**KD '000**
Cost							
At 1 April 2015	774,197	1,885,626	211,843	4,722	35,888	1,689,403	4,601,679
Additions	-	-	-	-	3,015	1,353,785	1,356,800
Transfers	35,557	254,800	12,979	-	-	(303,336)	-
Disposals	-	(752)	-	(16)	-	-	(768)
At 31 March 2016	**809,754**	**2,139,674**	**224,822**	**4,706**	**38,903**	**2,739,852**	**5,957,711**
Depreciation							
At 1 April 2015	718,570	1,495,966	188,464	4,629	14,229	-	2,421,858
Charge for the year	6,810	33,716	1,721	27	2,311	-	44,585
Relating to disposals	-	(752)	-	(16)	-	-	(768)
At 31 March 2016	**725,380**	**1,528,930**	**190,185**	**4,640**	**16,540**	**-**	**2,465,675**
Net carrying amount							
At 31 March 2016	**84,374**	**610,744**	**34,637**	**66**	**22,363**	**2,739,852**	**3,492,036**

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

9 PROPERTY, PLANT AND EQUIPMENT (continued)

	Tanks, pipelines and jetties	Plant and machinery	Freehold land, buildings and facilities	Vehicles and transportation equipment	Insurance spares	Assets under construction	Total
	KD '000	**KD '000**	**KD '000**	**KD '000**	**KD '000**	**KD '000**	**KD '000**
Cost							
At 1 April 2014	771,318	1,865,090	210,305	4,722	34,307	1,214,576	4,100,318
Additions	-	1,730	-	-	1,581	500,036	503,347
Transfers	2,888	20,783	1,538	-	-	(25,209)	-
Disposals	(9)	(1,977)	-	-	-	-	(1,986)
At 31 March 2016	774,197	1,885,626	211,843	4,722	35,888	1,689,403	4,601,679
Depreciation							
At 1 April 2014	708,127	1,465,233	186,589	4,537	12,071	-	2,376,557
Charge for the year	10,452	30,978	1,875	92	2,158	-	45,555
Relating to disposals	(9)	(245)	-	-	-	-	(254)
At 31 March 2015	718,570	1,495,966	188,464	4,629	14,229	-	2,421,858
Net carrying amount:							
At 31 March 2015	55,627	389,660	23,379	93	21,659	1,689,403	2,179,821

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment testing has been performed by management for each identifiable CGU (excluding Al-Zour Refinery Project) and the value in use is higher than the attributable CGU carrying value. For the Al-Zour Refinery Project ("Alzour"), a new company has been established during the current year, named Kuwait Petrochemical Refining Company ("KPRC"), which is a wholly-owned subsidiary by the Parent Company. All the legal and ownership rights of Alzour will be transferred to KRPC once it completes all its operating and other legal requirements. Accordingly, no detailed impairment testing is carried out during the period, as management believes that the Company would not be exposed to any impairment, if any.

The depreciation charge has been allocated as follows:

	2016	2015
	KD '000	**KD '000**
Cost of sales of refined products (Note 6)	**41,535**	37,694
General and administrative expenses (Note 7)	**1,733**	5,967
Local marketing costs	**5**	5
Charged to the Company's statement of income	**43,273**	43,666
Charged to the Parent Company in respect of local marketing (Note 15)	**826**	615
Charged to Kuwait Oil Company and other related parties (Note 15)	**486**	1,274
	44,585	45,555

10 LONG TERM RECEIVABLE FROM THE PARENT COMPANY

In accordance with the Company's Articles of Association, an amount equal to prior year statutory reserve was transferred to the Parent Company. This advance is interest free and has been classified as non-current because management does not intend to request repayment of this amount within the next year.

11 INVESTMENT IN AN ASSOCIATE

Entity name	*Country of Incorporation*	*Percentage of ownership*	
		2016	2015
Kuwait Aromatics Company K.S.C.C. ("KARO")	Kuwait	**%40**	%40

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

The movement in the carrying amount of investment in KARO during the year is as follows:

	2016	2015
	KD '000	KD '000
At the beginning of the year	**109,644**	101,970
Share of results	**13,562**	901
Foreign currency translation adjustment	**697**	6,773
At the end of the year	**123,903**	109,644

11 INVESTMENT IN AN ASSOCIATE (continued)

The following table illustrates summarised financial information of KARO:

	2016	2015
	KD '000	KD '000
Associate's statement of financial position:		
Non-current assets	**578,700**	780,004
Current assets	**515,197**	387,396
Non-current liabilities	**(549,177)**	(682,230)
Current liabilities	**(234,963)**	(211,060)
Net assets	**309,757**	274,110
Associate's revenue and results:		
Revenue	**482,480**	765,003
Profit	**33,906**	2,253
Commitments and contingencies	**6,572**	12,813

12 DEFERRED EXPENSES

	2016	2015
	KD '000	KD '000
At the beginning of the year	**21,536**	16,244
Additions	**11,098**	20,261
Amortisation charge	**(14,722)**	(14,969)
At the end of the year	**17,912**	21,536

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

13 INVENTORIES

	2016	2015
	KD '000	KD '000
Crude oil	**11,838**	25,906
Refined products	**208,740**	343,134
Catalysts and chemicals	**5,085**	6,171
Maintenance and spare parts	**105,404**	101,171
Goods in transit	**1,592**	876
	332,659	477,258
Allowance for obsolete and slow moving inventories	**(16,290)**	(21,023)
	316,369	456,235

14 TRADE RECEIVABLES

	2016	2015
	KD '000	KD '000
Trade receivables	**26,992**	26,476
Allowance for doubtful debt	**(187)**	(187)
	26,805	26,289

Trade receivables are non-interest bearing and are generally on 30-90 day terms. As at 31 March 2016, trade receivables at nominal value of KD ¬187 thousand (2015: KD 187 thousand) were impaired and fully provided for.

14 TRADE RECEIVABLES (continued)

Analysis of receivables at 31 March is as follows:

		Past due but not impaired	
	Neither past due nor impaired	*< 30 days*	*Total*
	KD '000	KD '000	KD '000
2016	**26,805**	-	**26,805**
2015	26,289	-	26,289

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

In determining the recoverability of a trade receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties. The Company's management believe that there is no further credit provision required in excess of the allowance for doubtful debts.

15 RELATED PARTIES

Related parties represent the Parent Company, entities under the Parent Company's common control, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Balances with related parties included in the statement of financial position are as follows:

Due from related parties

	2016	2015
	KD '000	**KD '000**
Kuwait Petroleum Corporation (the "Parent Company")	**1,639,529**	1,077,838
Kuwait Paraxylene Production Company K.S.C.	**1,979**	2,101
Kuwait Aviation Fuelling Company K.S.C.	**33**	2
Kuwait Oil Tanker Company K.S.C.	**94**	40
Kuwait Gulf Oil Company K.S.C.	**126**	205
Petrochemical Industries Company K.S.C.	**39**	17
Oil Sector Services Company K.S.C.	-	318
Kuwait Foreign Petroleum Exploration Company K.S.C.	**18**	29
Kuwait Petroleum International	**77**	59
	1,641,895	1,080,609

No bad or doubtful debt provision is considered necessary in respect of the amounts due from related parties.

Due to a related party

	2016	2015
	KD '000	**KD '000**
Kuwait Oil Company K.S.C.	**21,267**	32,119

The balances due from / to related parties are receivable / payable on demand and are interest free.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

15 RELATED PARTIES (continued)

Transactions and balances with the Parent Company

During the year, the Company had the following transactions and balances with the Parent Company:

	2016	2015
	KD '000	**KD '000**
Sales	**6,743,844**	10,965,473
Purchases	**6,439,369**	9,994,654
Long term receivable from the Parent Company (Note 10)	**130,000**	130,000
Financing advances due to the Parent Company (Note 20)	**3,606,708**	3,569,249

The Company is engaged in carrying out local marketing sales on behalf of the Parent Company which are not reflected in the statement of income of the Company as the risks and rewards associated with the local marketing sales are with the Parent Company. Local marketing sales represent sale of gasoline and other related products amounting to KD 370,318 thousand (2015: KD 351,534 thousand). The direct operating cost relating to local marketing operations incurred by the Company on behalf of the Parent Company amounting to KD 39,442 thousand (2015: KD 44,271 thousand) is also not reflected in the statement of income of the Company. General and administrative costs relating to local marketing amounting to KD 18,896 thousand (2015: KD 24,894 thousand) are also charged to the Parent Company (Note 7). The Company also charged a portion of the depreciation charge relating to certain property, plant and equipment to the Parent Company, Kuwait Oil Company and related parties (Note 9).

Compensation of key management personnel:

	2016	2015
	KD '000	**KD '000**
Salaries and short-term benefits	**812**	1,001
Employees' end of service benefits	**172**	1,322
	984	2,323

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

16 OTHER RECEIVABLES AND PREPAYMENTS

	2016	2015
	KD '000	**KD '000**
Prepayments and deposits	**12,081**	11,176
Advances against projects	**545,582**	397,262
Other receivables	**15,538**	13,179
	573,201	421,617

Advances against projects represents amounts paid to the various contractors involved in the construction of certain property, plant and equipment.

17 BANK BALANCES AND CASH

	2016	2015
	KD '000	**KD '000**
Bank balances	**16,966**	66,350

Included in bank balances is an amount of KD 576 thousand (2015: KD 3,929 thousand) denominated in foreign currency, principally US Dollars. All bank balances of the Company are held with a local bank.

18 SHARE CAPITAL

	2016	2015
	KD '000	**KD '000**
Authorized, issued and paid up share capital in cash		
1,587 million shares of 1 KD each		
(2015:260 million shares of 1 KD each)	**1,587,000**	260,000

On 10 January 2016, the extraordinary General Assembly of the Company's shareholder approved the increase in the authorised and paid up share capital of KD 1,327,000 thousand through the transfer from financing advances due to the Parent Company (Note 20). The commercial registration of the Company was amended thereafter.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

19 STATUTORY RESERVE

As required by the Companies Law and the Company's Articles of Association, 10% of the profit for the year before directors' remuneration should be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

20 FINANCING ADVANCES DUE TO THE PARENT COMPANY

	2016	2015
	KD '000	KD '000
At the beginning of the year	**3,569,249**	2,470,695
Advances received	**1,405,994**	1,136,248
Advances credited to the Parent Company's current account	**(41,535)**	(37,694)
Amounts transferred to share capital (Note 18)	**(1,327,000)**	-
At the end of the year	**3,606,708**	3,569,249

Financing advances due to the Parent Company represent amounts received to finance capital projects and are to be repaid in line with the related depreciation charge for capital projects. No interest is charged on the outstanding amounts (Note 15).

21 EMPLOYEES' END OF SERVICE BENEFITS

	2016	2015
	KD '000	KD '000
At the beginning of the year	**189,762**	183,039
Provided during the year	**76,522**	109,599
End of service benefits paid	**(41,828)**	(102,876)
At the end of the year	**224,456**	189,762

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

22 OTHER PAYABLES AND ACCRUALS

	2016	2015
	KD '000	KD '000
Accrued expenses	**143,632**	103,954
Accrued utilities	**12,187**	12,170
Payables against projects	**245,803**	10,923
Contract retentions	**135,728**	58,692
Other payables	**23,395**	38,434
Leave provision	**17,201**	30,034
	577,946	254,207

Included in accrued expenses is KD 66 thousand (2015: KD 60 thousand) which represents board of directors' remuneration for the year ended 31 March 2016, which is subject to the approval of Annual General Assembly of the Parent Company.

23 DIVIDENDS PAYABLE

As per the article 12 of Law Decree No. 6 of 1980, profit for the year (net of any transfers to the statutory reserve) is required to be paid to the Parent Company as dividend.

	2016	2015
	KD '000	KD '000
At the beginning of the year	**43,946**	216,461
Profit for the year	**158,127**	43,946
Amounts transferred to the Parent Company	**(43,946)**	(216,461)
At the end of year	**158,127**	43,946

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

24 OPERATING LEASE ARRANGEMENTS

The Company as lessee

The Company has entered into leases for motor vehicles and certain equipment. These leases have an average life of not more than five years with renewal terms at the option of the lessee whereby they can extend the lease terms based on market prices at the time of renewal. There are no restrictions placed upon the lessee as a result of entering into these leases.

	2016	2015
	KD '000	KD '000
Minimum lease payments recognised as an expense in the current year	**6,209**	5,874

Future minimum lease payments under non-cancellable operating leases as at 31 March are as follows:

	2016	2015
	KD '000	KD '000
Within one year	**7,144**	6,863
After one year but not more than five years	**13,045**	13,726
	20,189	20,589

The Company as lessor

During the year ended 31 March 2010, the Company reconstructed facilities at South Pier in order to import liquefied natural gas for the Ministry of Electricity and Water ("MEW"). Based on the directive from the Parent Company, no gain or loss is to be recognised on this arrangement between the Parent Company and MEW. The cost incurred by the Company amounting to KD 19,174 thousand (2015: KD 19,159 thousand) is recharged by the Company.

NOTES TO THE FINANCIAL STATEMENTS
As at 31 March 2016

25 RISK MANAGEMENT
25.1 Introduction

Risk is inherent in the Company’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company’s continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into commodity price risk, foreign currency risk and interest rate risk. It is also subject to operational and prepayment risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company’s strategic planning process.

25.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets subject to credit risk consist principally of bank balances, trade receivables, other receivable, due from related parties and long term receivable from the Parent Company.

The Company has policies and procedures in place to limit the amount of credit exposure to any counter party and to monitor the collection of receivables on an ongoing basis. The Company limits its credit risk with regard to bank balances by only dealing with reputable banks. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

25 RISK MANAGEMENT (continued)
25.2 Credit risk (continued)

Gross maximum exposure to credit risk

The Company’s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The Company bears credit risk on trade receivables, other receivable, due from related parties and long term receivable from the Parent Company which is a government owned entity.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

The table below shows the gross maximum exposure to credit risk across financial assets before taking into consideration the effect of credit risk mitigation.

	2016	2015
	KD '000	KD '000
Long term receivable from the Parent Company	**130,000**	130,000
Trade receivables	**26,805**	26,289
Other receivable	**15,539**	13,179
Due from related parties	**1,641,895**	1,080,609
Bank balances and cash	**16,966**	66,350
Gross maximum credit risk exposure before credit risk mitigation	**1,831,205**	1,316,427

The exposures set above are based on net carrying amounts as reported in the statement of financial position.

The table below shows the carrying amounts of major counterparties at the reporting date:

	2016	2015
	KD '000	KD '000
First Fuel Marketing Company K.S.C.	**8,814**	10,528
Al-Sour Fuel Marketing Company K.S.C.	**8,557**	10,248
Ministry of Defence, Kuwait	**4,787**	2,284
Ministry of Interior, Kuwait	**215**	187

Collateral and other credit enhancements

The Company does not have any collateral or other credit enhancements against any of the financial assets at 31 March 2016 and 31 March 2015.

Credit quality of financial assets

The Company manages credit quality by reference to external credit ratings (if available) or to historical information about counterparty default rates. Majority of the Company's receivables represent amounts due from governmental institutions.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

25 RISK MANAGEMENT (continued)

25.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Company manages liquidity risk by maintaining adequate funds and reserve borrowing facilities from the Parent Company, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Company's liabilities based on contractual undiscounted repayment obligations:

31 March 2016	***Within 3 months***	***3 to 12 months***	***1 to 5 years/ undated***	***Total***
	KD '000	**KD '000**	**KD '000**	**KD '000**
Financing advances due to the Parent Company	-	-	**3,606,708**	**3,606,708**
Employees' end of service benefits	-	-	**224,456**	**224,456**
Trade payables	**5,617**	-	-	**5,617**
Other payables and accruals	-	**577,946**	-	**577,946**
Due to a related party	**21,267**	-	-	**21,267**
TOTAL	**26,884**	**577,946**	**3,831,164**	**4,435,994**

31 March 2015	***Within 3 months***	***3 to 12 months***	***1 to 5 years/ undated***	***Total***
	KD '000	**KD '000**	**KD '000**	**KD '000**
Financing advances due to the Parent Company	-	-	3,569,249	3,569,249
Employees' end of service benefits	-	-	189,762	189,762
Trade payables	3,119	-	-	3,119
Other payables and accruals	-	254,207	-	254,207
Dividends payable	-	43,946	-	43,946
Due to a related party	32,119	-	-	32,119
TOTAL	35,238	298,153	3,759,011	4,092,402

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

25.4 Market risk

Market risk is the risk that changes in market prices, such as commodity prices and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company's activities expose it primarily to the financial risks of changes in commodity prices and foreign currency exchange rates.

25.4.1 Commodity price risk

Volatility in oil and refined products prices is a pervasive element of the Company's business environment as the Company's purchases of crude oil and sales of refined products from/to the Parent Company are based on international commodity prices in accordance with a commercial supply agreement.

The Company's refining margin is affected by disproportionate fluctuations in the prices of crude oil and refined products. The Company does not use derivative instruments either to manage risks or for speculative purposes.

25.4.2 Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rates exposures are managed within approved policy parameters. However, the Company's exposure and sensitivity to foreign exchange risk is insignificant.

25.5 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

Management has implemented health and safety policies and procedures addition to an adequate insurance coverage to mitigate operational risk.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2016

25.6 Prepayment risk

Prepayment risk is the risk that the Company will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The Company is not significantly exposed to prepayment risk.

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that the fair value of all financial instruments at the reporting date is not materially different from their respective carrying value, except for the 'long term receivable due from the Parent Company' and 'financing advances due to the Parent Company', the fair value of which cannot be reasonably determined as these amounts do not have fixed maturity terms.

27 CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issues new shares.

No changes were made in the objectives, policies or processes during the years ended 31 March 2016 and 31 March 2015.

The Company monitors capital using a gearing ratio, which is net debt divided by total equity. The Company includes within net debt financing advances due to the Parent Company, trade payables, other payables and accruals, dividends payable and due to related parties less bank balances and cash. Capital includes equity attributable to the equity holder of the Company.

	2016	2015
	KD '000	KD '000
Financing advances due to the Parent Company	**3,606,708**	3,569,249
Trade payables	**5,617**	3,119
Other payables and accruals	**577,946**	254,207
Dividends payable	-	43,946
Due to related parties	**21,267**	32,119
Less: Bank balances and cash	**(16,966)**	(66,350)
Net debt	**4,194,572**	3,836,290
Total capital	**1,903,093**	399,699
Capital and net debt	**6,097,665**	4,235,989
Gearing ratio	**%68.8**	%90.56

NOTES TO THE FINANCIAL STATEMENTS
As at 31 March 2016

28 CAPITAL COMMITMENTS

As at the reporting date, the Company had commitments in respect of future capital expenditure amounting to KD 610,844 thousand (2015: KD 322,063 thousand). Commitments will be financed by the Parent Company (Note 20).

29 CONTINGENT LIABILITIES

The Company is involved in a number of legal proceedings and claims with contractors, vendors and employees of the Company. Also, the Parent Company and the Company are involved in certain claims arising in the normal course of business. In some of these legal proceedings and claims, the cost of remedies that may be sought or damages claimed are substantial.

It is not possible to determine with certainty the ultimate outcome of the legal proceedings and claims referred to in this note. The management is of the opinion that the ultimate outcome will not have a material effect on the results of operations for the year.

30 SUBSEQUENT EVENTS

On 28 April 2016, the Company has signed a commercial and Islamic loan agreements amounting to KD 710,000 thousand and KD 490,000 thousand, respectively, to facilitate the capital expenditures of the new projects.

Commercial financing is repayable in periodic installments over variable periods of time with maturities extending to 2026 with a variable interest rate of 1% per annum over the Central Bank of Kuwait discount rate.

Islamic financing is repayable in periodic installments over variable periods of time with maturities extending to 2026 with an average profit rate of 1 % per annum over the Central Bank of Kuwait discount rate.

Acknowledgement

KNPC Board of Directors wishes to express sincere appreciation and gratitude to H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, the Amir of the State of Kuwait for his patronage to the Company and to H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, the Crown Prince, and H.H. Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah the Prime Minister, for their continuous support for KNPC growth and development.

The Board also wishes to thank all Ministers, Chairman and Board Members of Kuwait Petroleum Corporation who continued to assist KNPC to undertake its mission and fulfill its objectives. The Board of Directors hopes that this patronage and support will continue to the best interest of the national economy and the country's welfare.

Corporate Communication Department also thanks and appreciates the valuable contributions of MAA Shift Leader Ali Hussain Akbar, Portfolio & Program Management Senior Engineer Yousef Mansour Al-Qallaf and Audit & Coordination Engineer Muath Ahmad Alansari for providing the photographs of the annual report.

البترول الوطنية

KNPC

إحدى شركات مؤسسة البترول الكويتية

A Subsidiary of Kuwait Petroleum Corporation