Leadership & Growth

Annual Report

2016/2017

البترول الوطنية

KNPC

إحدى شركات مؤسسة البترول الكويتية

A Subsidiary of Kuwait Petroleum Corporation

Leadership & Growth

His Highness

Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah

The Amir of Kuwait

His Highness

Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah

The Crown Prince

Content

Members of the Board

Mr. Jamal Al-Nouri
Chairman

Mrs. Hosniah Hashim
Deputy Chairman

Mr. Mohammad Ghazi Al-Mutairi
Board Member

Sheikh Talal Al-Sabah
Board Member

Mr. Ismail Abbul
Board Member

Mr. Naser Al-Saleh
Board Member

Mr. Khalid Al-Msheileh
Board Member

Top Management

Mr. Mohammad Ghazi Al-Mutairi
Chief Executive Officer

Mr. Hatem Al-Awadhi
Deputy CEO, Al-Zour Refinery Project

Mr. Shukri Al-Mahrous
Deputy CEO, Planning & Finance

Mr. Mutlaq Al-Azmi
Deputy CEO, Mina Abdul-lah Refinery

Mr. Fahed Al-Dihani
Deputy CEO, Mina Al-Ahmadi Refinery

Mr. Naser Al-Shamma'
Deputy CEO, Support Services

Mr. Bassem Al-Issa
Deputy CEO, Administration and Commercial Affairs

Mr. Abdullah Al-Ajmi
Deputy CEO, Projects

Mr. Jamal Alloughani
Deputy CEO, Fuel Supply Operations

CEO
Message

I present to you the Annual Report for the Fiscal Year 2016/2017 in which the overall activities and achievements of the Kuwait National Petroleum Company are outlined. The Report also reviews our performance indicators and employees' accomplishments regarding the company's Projects and various initiatives.

The company's three Refineries continued with their usual work, and the daily average refining of crude oil amounted to 821,000 barrels per day. Our net profits reached KD 216 million, i.e US$ 715 million, whereas our income amounted to KD 6.6 billion during the year.

The Fiscal Year ended with several extraordinary developments, most significantly the shutdown of Shuaiba Refinery due to the outdated units and production facilities. Core economic and technical reasons were behind the closure decision. In turn, the company carried on with its major strategic Projects in order to increase the production capacity and improve the product quality; most importantly is the Clean Fuel Project (CFP) with its three packages. Due to crucial impact locally and internationally, the CFP was selected by Hydrocarbon Processing magazine as the Best Refining Project in 2016. The Project is expected to be commissioned by the end of 2018.

In an outstanding milestone in the history of crude oil sector, the company adopted a new policy to finance the Project based on 30/70 financing plan. Accordingly, the KPC shall, directly by its self-resources, finance 30 percent of the total value of the Project; whereas, the remaining 70 percent shall be financed from outside sources.

In April 2016, the company signed a KD 1.2 billion loan contract, represented the first tranche of the financing deal which is led by Kuwait National Bank and Kuwait Finance House. Negotiations with Export Credit Agencies and International Banks regarding the second tranche with US$ 6.2 billion have been finalized.

In August 2016, the company received the Al-Zour Refinery reformed land ready for construction works. The Project was a role model for timely completion and within the set budget. By the end of the Fiscal Year, execution ratio was 28.3 percent.

The newly established Kuwait Integrated Petroleum Industries Company (KIPIC), the promising new comer to Kuwait oil sector, will assume the responsibility of Al-Zour Refinery Project. In order to enable the new company to advance in such strategic and vital Projects for Kuwait oil sector and economy, KNPC provided all needed support in logistics, administration, legal, commercial and human resources, and transformed a number of best experienced employees to KIPIC.

With the unsteady international oil markets, the company maintained a cautious policy to increase profitability. We now rely more on operation competency, expense reduction and energy consumption rationalization. Through the Cost Optimization and Profit Increase initiative, we collected major financial gains of US$ 670 million.

As we move on with our Projects and playing our important role, we kept our attention on equally important issues, such as preservation of the environment and contributions to society. These aspects rank high in our priorities.

In conclusion, we, with great optimism, look forward for better future for our company, country and next generations. However, what Kuwait National Petroleum Company reaps is just the result of our employees sincere efforts at their various positions and locations. To them, we express our deepest appreciation and gratitude.

Mohammad Ghazi Al-Mutairi

Chief Executive Officer

Remarkable Achievements during 2016 / 2017

82.5%
of Clean Fuel Project completed

Continue the 5th Gas Train Project

Signing KD 1.2 billion First Tranche Contracts with local banks to finance CFP

Completion of feasibility and FEED studies for building 19 new filling stations, and floating the tender in October 2016

Shut-down of production units of Shuaiba Refinery - end of March 2017

KD215.7
million in Profit

Main Indicators

Main Indicators for Fiscal Year 2016 / 2017

	2016 / 2017	2015 / 2016	2014 / 2015
Financial Indicators			
	Million KD	Million KD	Million KD
Total products sales	6,571.5	6,744.2	10,965.8
Local Marketing total sales*	446.0	370.3	351.5
Net profits	215.7	175.7	43.9
Total operation expenses	658.4	631.9	684.6
Capital expenditure	2,099.0	1,354.03	501.7
Changes in total fixed assets	2,053.7	1,312.2	456.1
Average Crude Oil feedstock			
	X000 / day	X000 / day	X000 / day
Shuaiba Refinery	191.0	167.8	186.6
Mina Abdullah Refinery	228.8	264.0	267.7
Mina Al-Ahmadi Refinery	401.5	425.3	411.6
Total	821.3	857.1	865.9
Sales			
Products exported to international markets (x000 ton)	31,302.5	33,833.9	33,751.7
Fuel to local market (million liters)	6,115	6,032.0	5,800
Fuel to MEW (Million liters)	8,159	8,346.3	7,546.8
Bitumen (x000 MT)	113.0	94.2	102.1
Manpower			
Manpower at the end of Fiscal Year	6,352	6,344	6,464

(*) Sales of petroleum products to the local market include sales on behalf of KPC and KNPC sales

Chapter One

Refining & Gas Liquefation

"The Fiscal Year showed high levels of performance, operation efficiency and implementation of Health, Safety and Environment systems"

The company continued achieving a high level of performance in its three Refineries during the Fiscal Year 2016/2017. The daily refining average reached about 821,300 barrels per day. This average is 4.2% less than the one achieved in the previous Fiscal Year 2015/2016 of 857,100 barrels per day. Therefore, the total of crude oil refined in the three Refineries - Mina Al Ahmadi Refinery (MAA), Mina Abdullah Refinery (MAB) and Al-Shuaiba Refinery (SHU) - amounted to 299.8 Million barrels, slightly less than last year's of 313 Million barrels.

The decrease in the refining volume is due to the following:

- Shutting down of CDU Unit No. 3 for 9.5 days, and CDU Unit No. 5 for 18 days in MAA Refinery to carry out the Clean Fuel Project (CFP).
- Increasing the scheduled period of total shutdown of MAB due to increased CFP work and the suspension of the CDU Units (01/11) longer than planned.
- Decreasing the CDU Unit No. 6 Capacity (in SHU Refinery) as a result of the suspension of the H-Oil Unit.

Last year was marked by the operational excellence of the company's Refineries that showed high levels in performance, operation efficiency, carrying out of Health, Safety and Environment systems. This indicates the efforts of all company employees and their keenness to achieve the targeted results and goals.

We list here below a summary of each Refinery performance during the Fiscal Year 2016/2017:

Mina Al-Ahmadi Refinery

The total amount of refined crude oil in MAA Refinery during the current Fiscal Year reached 146.5 million barrels compared to 155.7 million last year, with a daily average of 401,500 barrels, compared to 425.3 thousand barrels last year.

The total exported products from MAA reached 11,126,000 metric tons including 703,000 metric tons of Sulfur.

The Refinery maintained the distinctive performance during the set period and achieved many accomplishments, most importantly:

- MAA increased Gasoline (91 octane) production from 1,600 tons per day to 3,500 tons, in order to fulfil the local market demand of this product after increasing the fuel prices in the country.
- Commissioning of Tail Gas Treatment Unit (TGTU-99) in May 2016.
- Commissioning of Bitumen Production Unit using Kuwait Export Crude (KEC), because of unavailability of Eocene Crude, with a production capacity between 7,000- 7,500 barrels per day, which helped in saving of US$ 12 million.
- The LNG import capacity was raised from 550 million cubic feet per day (mmscfd) to 750 mmscfd. The shutdown period of LNG import facilities was decreased from three months to two, while using the cheaper natural gas rather than gas oil, which endowed Kuwait a total saving of US$ 80 million.

- Convert the feedstock coming from the West Kuwait fields to the acid gas treatment unit in MAA instead of SHU as a result of the compressors' breakdown, which saved an amount of US$ 24 million.
- Increasing the capacity of the Acid Gas Treatment Unit from 100 mmscfd to 130 mmscfpd, which helped in maintaining fixed supplies of feedstock and reducing the rate of flared gas in KOC.
- Completing the maintenance turnaround for some units in the Refinery, such as the CDU, ARDs, hydrogen production units and Sulfur recovery units, in addition to the new Diesel Desulfurization Unit. The maintenance included 564 equipment without any delay.
- The gas leak detection system at the sea mooring area was installed.
- Replacing and repairing parts of the oil pier.
- Avoiding total shutdown of gas liquefaction factory using advanced inspection techniques.

Mina Abdullah Refinery

The average of crude oil feedstock during 2016/2017 that arrived at MAB Refinery reached 228,800 barrels per day, or 83.5 million barrels during the Fiscal Year. This average is less than that of the previous Fiscal Year amounted to 264,000 barrels per day i.e 96.4 million barrels during the year.

This drop is due to executing maintenance works for several main units, and the need to increase the shutdown days to do additional CFP tie-in works.

During this period, 8,339,200 metric tons of oil products were exported through the sea-island, and about 498,000 metric tons of petroleum coke through Al-Shuaiba sea-port, in addition to 492,500 metric tons of petroleum coke to the Petroleum Coke Industries Company. The Refinery succeeded in fulfilling Kuwait Paraxylene Production Company needs to produce paraxylene from naphtha, with an average that often exceeded the need by 110-112%, with a total of 2.6 million tons during the Fiscal Year. Therefore, the total exports from the Refinery reached 11.93 million metric tons, compared to the total that exceeded 13.70 million metric tons in the last Fiscal Year.

MAB Refinery was subject to general Refinery turnaround that included a full preventive maintenance for three main units; CDU Unit, Kerosene Treatment Unit and Isomax Unit. During the maintenance, tie-in works were carried out with CFP and other instrumentation upgrades.

Out of the many achievements accomplished by MAB Refinery during the Fiscal Year 2016/2017:

- Updating the electronic control systems and emergency shutdown system for Hydro-Cracking Unit HCR-14, to be compatible with CFP systems.
- Improving the quality of the products, which led to the reduction of "lost" quantities of the Refinery products which did not exceed US$ 3.6 million, less than the set target by US$ 6.2 million.
- Bio treatment of almost 14,500 cubic meters of contaminated soil to be used for greenery. It was agreed to supply the whole treated amount to KOC.
- Continued activities of the Center of Excellence according to the Talent Management Program criteria

to sustain knowledge and exchange experience between the Kuwaiti engineers inside the Refinery.

- Issuance of the quarterly economic bulletin that covers the Refinery performance and the latest oil markets developments.

Al-Shuaiba Refinery

The average of crude oil feedstock in the Refinery reached 191,000 barrels per day during 2016/2017, i.e. 69.7 million barrels during the year, an increase of 9.7% over the last Fiscal Year of 68.1 million barrels with a daily average of 167,800 barrels.

SHU Refinery was able to increase its refining capacity by overcoming the difficult operation restrictions resulting from the Heavy Oil Unit (H-Oil) closure. This was done through a high-level of planning, management and coordination among all Refinery sections and departments.

It is notable that raising the Refinery operation capacity has contributed to increasing the profits by US$ 27 million.

During the year, about 4,878,500 metric tons of oil products were exported through Al-Shuaiba and Al-Ahmadi export piers.

On 30 March 2017, the production units of SHU Refinery were suspended due to downgrading, outdated technologies used and increasing difficulty of marketing its products since they were not compatible with the increasing environmental conditions in the international markets. The suspension was done in correspondence with the CFP progress. The Refinery storage tanks and export facilities will be put in the service of this Project.

Development of crude oil refining averages in the three Refineries between 2012/2013-2016/2017 (X 000 barrels per day)

Refinery	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
SHU	191	167.8	186.6	192.7	193.9
MAB	228.8	264	267.7	255.6	272
MAA	401.5	425.3	411.6	411.9	451.6
TOTAL	821.3	857.1	865.9	860.2	917.6

Productivity of the three Refineries

The net oil products in the company's three Refineries during the Fiscal Year 2016/2017 reached about 40.6 million metric tons, compared with 43.5 million in the Fiscal Year 2015/2016, as it shows in the following table:

Product	Annual production 2016 / 2017		Annual production 2015 / 2016	
	X000 MT	%	X000 MT	%
Naphtha/Car Gasoline/Reformat	8,544.3	20.5	8,431.2	19.4
Kerosen/ATK	7,847.1	18.9	8,411.9	19.4
Gas oil/Diesel	10,024.9	24.1	11,813.2	27.2
Fuel oil/Residue	11,362.6	27.3	10,801.0	24.8
* **Other products**	2,878.8	6.9	2,984.1	6.9
Total net products	40,657.7	97.7	42,441.4	97.7
Consumption/loss	937.3	2.3	1,015.6	2.3
Total	41,595.0	100.0	43,457.0	100.0

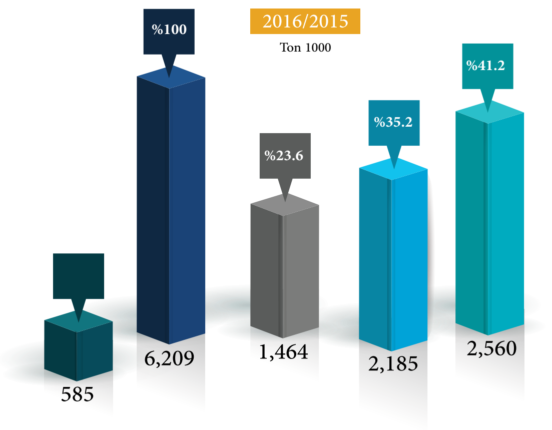
*Includes Refineries LPG, sulfur, coke, bitumen and propylene

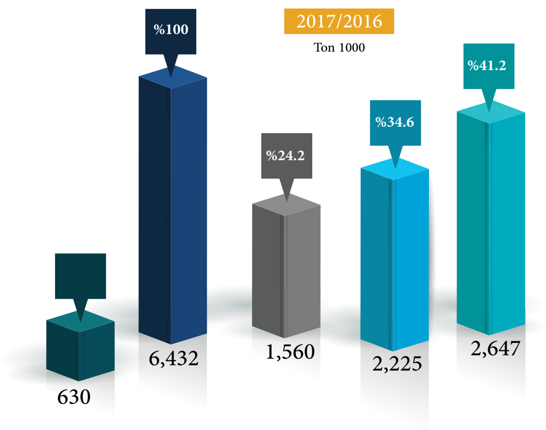
Gas Liquefaction

During this Fiscal Year, the feedstock average reached 1,682.5 million cubic feet per day, in comparison with 1,686.7 million cubic feet per day in the last Fiscal Year. This average reflects the actual produced quantities in the oil fields and the company Refineries.

The total exported quantities of Propane & Butane were around 4,570,400 metric tons during 2016/2017, compared with 4,483,000 metric tons in the previous Fiscal Year, i.e. an increase of 1.95%.

In the chart below, we mention details of the production of Gas Liquefaction Plant in the years of 2016/2017 and 2015/2016.





Lean gas (billion cubic feet) Total liquid products Benzene Butane Propane

Coking Unit at MAB

Chapter Two

Local Marketing

> The company is currently reviewing offers to build 19 new filling stations around the country

The Projects

The company continues carrying out several Projects that target the development and improvement of oil products marketing services inside the State of Kuwait, and enhance Health, Safety and Environment aspects at the same time. The execution of these Projects during the Fiscal Year 2016/2017 is well underway. The most important Projects are:

Expansion and upgrading of Al-Ahmadi depot

This Project is consistent with the recommendations of the study about the future expectations for the local market strategic demand of oil products until 2030. In the light of same, the local market needs of these products will be met at several stages. The first of which is the expansion and upgrading Project of Al-Ahmadi Depot. It includes the construction of 11 new storage tanks for petroleum products with floating roofs, 7 loading arms and facilities for relating services.

The KD 75 million budget Project is expected to be completed by March 2018.

Construction of a new depot in Al-Mutlaa

This Project represents the second stage to fulfill the local market needs of oil products, based on the recommendations of the study about the future expectations until 2030. This Project is of a great importance, since it will provide strategic storage tanks that will cover the country's emergency needs of oil products, and will integrate with the two current depots at Al-Ahmadi and Subhan areas.

The Project includes the construction of 26 storage tanks for different oil derivatives, 20 loading arms and a number of supporting facilities and units. 3 lines of pipes, 130 km each, will be installed to link the Project with the company Refineries.

The FEED studies are complete and got the approval of the company's Projects Committee. The Project is expected to be completed in December 2022.

Al-Ahmadi Depot for petroleum products

Construction of 19 new filling stations

In the light of the urban sprawl the country is witnessing, the company has set a comprehensive plan to build 100 new filling stations throughout Kuwait. The stations will be built within five phases during the next few years. With their latest technologies and distinctive design, the stations will reflect the image of the company in applying the renewable and alternative energy concept. Clients will enjoy the various facilities, of the super market and car services at the stations.

In October 2016, the company floated a tender to build the first group of these stations, 19 in total. The received offers are currently under review and evaluation.

The company has also started recently the feasibility studies and review of the primary designs for another 15 filling stations, representing the second group.

Filling Stations

In the current Fiscal Year, the company has 45 filling stations, compared with 44 stations during the last Fiscal Year, after the inauguration of the new mobile filling station at Sabah Al-Ahmad city to fulfill the needs of the residents of the area. All stations operate in the comprehensive service system.

The company also signed two contracts to put a number of its filling stations for investment by introducing super markets in 3 stations, car wash, repair, spare parts and other services in another 5 stations. These contracts are considered the first of their kind in KNPC, and they are consistent with the company's plan to improve services and create investment opportunities for local companies to enhance partnership with the private sector.

To guarantee the highest levels of quality, the company, represented by the Local Marketing Department, continues to audit the performance aspects related to Health, Safety and Environment in the stations whose ownerships have been moved to the private sector in 2005.

45 the number of KNPC filling stations in the current Fiscal Year

Car wash stations

The company operates an automatic car wash at Bayan filling station. The number of cars that utilized this station's services during the Fiscal Year amounted to 95,146 cars. The company also intends to install new car wash facilities in 20 of its existing filling stations.

Sales of Local Marketing

The sales of Local Marketing for the Fiscal Year 2016/2017 have witnessed a general increase compared with the last Fiscal Year 2015/2016. It also witnessed a change in the patterns of consumption in some products. The sales of Regular Gasoline (91 octane) have jumped by 127.4% from the last Fiscal Year, whereas the sales of Premium Gasoline (95 octane) have decreased by 28%. This change is due to the Prime Ministry Council decision of increasing the fuel prices as from September 2016.

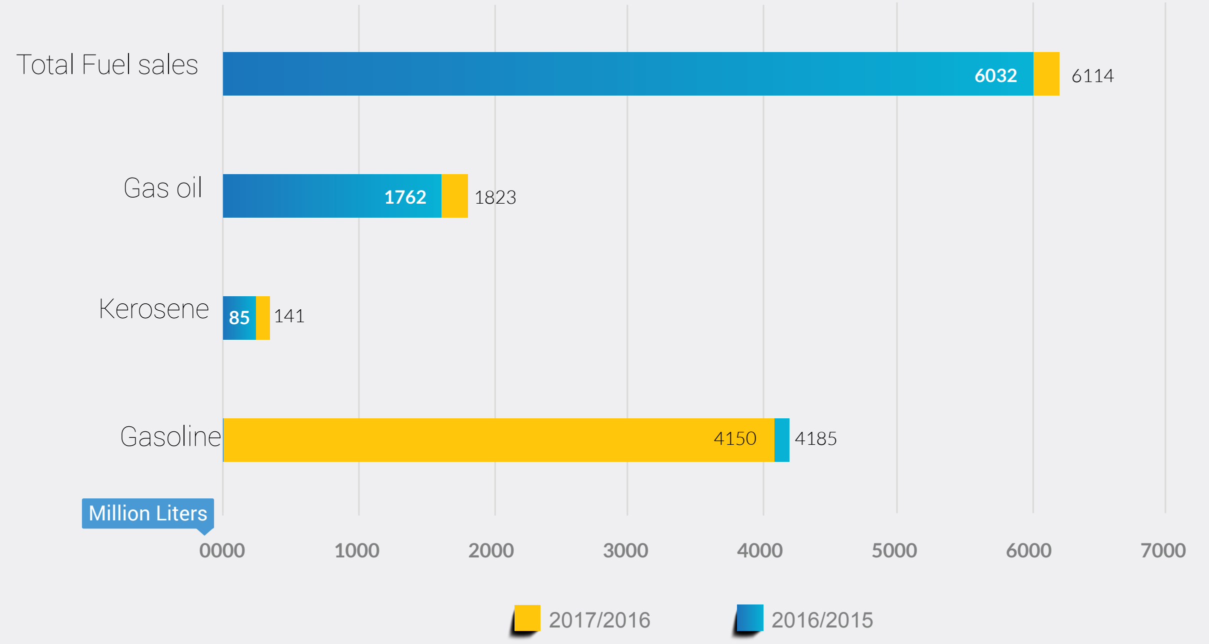
In the light of higher consumption rate, KNPC increased the production of gasoline 91 Octane from 1,600 tons per day to 3,500 tons per day in MAA Refinery in order to fulfill the local market needs of this product.

The following charts demonstrates the details of the local market sales during the Fiscal Year 2016/2017, compared with the last Fiscal Year, and development of local market sales during the last five years.

Sales of the Local Marketing (million Liters) during the two Fiscal Years 2015/2016 - 2016/2017

Product	2016/2017	2015/2016	+/- compared with last year %
(Gasoline Euro 4 (cars	0.03	0.1	(66.6)
(Gasoline (98 Octane	68.6	97.1	(29.4)
(Gasoline (95 Octane	2418.3	3356.6	(28)
(Gasoline (91 Octane	1663.3	731.4	127.4
Total car gasoline sales	**4150.2**	**4185.2**	**(0.8)**
Kerosene	141.0	85.1	65.7
Gas oil Euro 4	0	0	0
(Gas oil (local market	1823.0	1761.9	3.5
Total Fuel sales to local market	**6114.2**	**6032.2**	**1.4**
Gas oil to MEW	1061.3	1189.3	(10.8)
Heavy fuel oil to MEW	7097.8	7157	(0.8)
Total sales to MEW	**8159.1**	**8346.3**	**(2.2)**
Total fuel sales	**14273.1**	**14378.5**	**(0.7)**
(Bitumen (Metric Ton	112877	95359	18.4

Local Marketing fuel sales during the two Fiscal Years 2015/2016 - 2016/2017



One of KNPC filling stations

Development of Local Marketing fuel sales during the two Fiscal Years 2012/2013 - 2016/2017

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Gasoline Euro 4 *	0.1	0.1	0.1	0.1	0.03
Gasoline (98 Octane)	74.1	85.1	94.3	97.1	68.6
Gasoline (95 Octane)	2869.4	3021.7	3233.2	3356.6	2418.3
Gasoline (91 Octane)	804.8	743.1	722.0	731.4	1663.3
Total car gasoline sales	**3748.4**	**3850**	**4049.5**	**4185.2**	**4150.2**
Kerosene	76.2	85.5	87.8	85.1	141.0
Gas oil Euro 4	0.01	0	0.0	0.0	0
Gas oil (local market)	1591.8	1610.7	1662.6	1761.9	1823.0
Total Fuel sales to local market	**5416.4**	**5546.3**	**5800**	**6032.2**	**6114.2**
Gas oil to MEW	1764.6	1670.7	1836.7	1189.3	1061.3
Heavy fuel oil to MEW	6329	7099.8	5710.1	7157	7097.8
Total sales to MEW	**8093.6**	**8770.6**	**7546.8**	**8346.3**	**8159.1**
Total fuel sales	**13510**	**14316.8**	**13346.8**	**14378.5**	**14273.3**
Bitumen (Metric Ton)	167061	92796	102149	95359	112877

* The product was marketed in 2009 to fulfil the modern cars needs. The product is imported from the international market.

Chapter Three

Capital Projects

"82.5 % of the Clean Fuel Project works were completed, and the Project is expected to be commissioned in October 2018"

The company carries out many major Projects, most importantly the Clean Fuel Project (CFP) that aims to upgrade and expand the production capacity of MAA and MAB Refineries. These Projects are an essential part of the company targets in striving to modernize and develop production capabilities, improve products and enhance ability to fight pollution and limit environmental damages.

A number of important Projects have already been completed, whereas many, mentioned herein below, are still being executed.

Completed Projects

Upgrading and enhancing the south pier reliability to facilitate gas imports

This completed Project will enhance the safety and readiness of the south pier in MAA Refinery to facilitate LNG imports till 2025. LNG imports are expected to increase in line with the escalating current and future local needs, especially the power stations'. The KD 4.5 million budget included the necessary revamping and upgrading operations for oil pier, main bridge and other works to ensure the pier's reliability for 8 additional years.

Ongoing Projects

Clean Fuel Project

This Project aims at upgrading and developing the two Refineries of MAB and MAA to become an integrated refining complex with increasing refining capacity that will reach 800,000 barrels per day, and an increase in their conversion capability in order to produce high quality derivatives that fulfill the increasingly stringent international environmental conditions. As high as 82.5% of the Project has been completed by the end of March 2017, and it is expected to be commissioned in October 2018. The works of upgrading Fluid Catalyst Cracking Unit (FCC) at MAA has already been commissioned and operated. As well, the Project's

Construction works at CFP

electrical works building, equipment and operating of the main sub-stations for the two Refineries have been completed. The works of construction of all long-lead heavy equipment, 26 in both Refineries, have also been completed.

The Project includes building new multi refining and treatment units and upgrading other units. Some old units will also be shutdown.

After completion, the CFP will mark history for the Kuwaiti oil industry. Upgrading and improving the specifications of oil products with low- sulfur content, will give the needed competitive edge and enable the company to penetrate the international markets. This will also improve the refining operations and safety standards, as well as reduce emissions and limit the environmental effects of the company operations.

Other positive effects of the Project on the local economy include creating job opportunities for the national staff. As well, a minimum of 20% of the Project contracts value will be ceded to the Kuwaiti private sector. This includes construction works, imports, services, transport, industrial, communication and nutrition, and many others.

Financing the Clean Fuel Project

The company adopted a new approach in financing the CFP when it was divided by 30/70; the company defrays 30% whereas the local and International Banks will cover 70%. In April 2016, the first tranche contracts for KD 1.2 billion long term loans were signed with the local traditional and Islamic banks, where the National Bank of Kuwait and Kuwait Finance House were the leading banks.

Signing the First Tranche of CFP financing deal

The second tranche however, is in US Dollars; it is related to borrowing from export credit agencies and International Banks. The financing agreement was signed with the Japanese Export Credit Agencies at the end of March 2017. The negotiations and agreement on all main articles of the finance agreement with the Export Credit Agencies and International Banks from Japan, South Korea, Italy, England, Holland, France and Spain were completed. The amount of the second tranche is US$6.245 billion.

Al-Zour Refinery Project

The Project mainly aims to provide secure and continuous low-sulfur content fuel oil to fulfil the needs of the electrical power stations. Currently, large quantities of crude oil and gas oil are being burned, especially in peak times during summer as a result of the increasing demand on electrical power.

The national, strategic and environmental Project represents an important part of the KPC strategy regarding refining and petrochemicals sector. The strategy seeks to increase the Kuwaiti refining capacities to 1.4 million barrels per day, and produce high quality oil derivatives.

The Refinery is considered the world's largest grass-root Refinery with a capacity of 615,000 barrels per day. It will produce 225,000 barrels per day of low Sulfur content fuel oil, as well as 340,000 barrels of high quality refined oil products per day.

In August 2016, the preliminary works of the Al-Zour Refinery land were completed and became ready for construction works. The ownership of Al-Zour Refinery Project will be moved to Kuwait Integrated Petroleum Industries Company (KIPIC) that was established to manage this Project, as well as the LNG Import Facilities construction Project.

On 31 March 2017, the total rate of the Project completed works reached 28.36%, and it is expected to finish in December 2019.

The LNG Import Facilities construction Project in Al-Zour area

This Project is considered as part of the KPC 2030 strategic plan to fulfill the local market long-term needs of fuel and increase the flexibility of operations to meet the seasonal demand on fuel for power station in peak times during the Summer. The scope of work of the Project includes constructing LNG storage tanks, reception and vaporization facilities with a capacity of 3,000 billion BTU per day to supply the local network, in addition to other supporting services. These facilities will be built in the marine side of Al-Zour Refinery Project on an a claimed land from the sea with an area of 725,000 square meters. The site is 700 meters far from the coast.

11.11 % of the KD 998 million budget Project were completed by the end of March 2017 and expected for completion in February 2021. The ownership of the LNG Import Facilities construction Project will be moved to KIPIC.

LPG 5th Gas Train Project

The Project aims at the construction of a 5th unit for LPG production in Mina Al-Ahmadi Refinery to accommodate and process the expected increase in gas and condensates production from various oil fields and Refineries in Kuwait. The production capacity of the 5th unit will reach 805 mmscfpd of gas and 106,000 barrels per day of condensates. A joint unit for the fourth and fifth gas unit for processing fuel gas will also be established. After finishing the Project, the total gas processing capacity of the company will reach 3.263 billion cubic feet per day.

The KD 428 Million budget Project is expected to be commissioned in July 2019. So far, 51% is completed.

New LPG north tank farm Project

The Project aims to increase the storage capacity and export the additional expected gas products following the completion of LPG 4th and 5th Trains expansion Projects in MAA. These Projects are in line with KPC's strategic plan that seeks to increase gas production in KOC and KGOC.

The Project includes removal of the old northern gas storage tanks and building 10 LPG tanks (5 for Propane and 5 for Butane) with a capacity of 72,350 cubic meters for each, cooling facilities, additional loading pipe lines and replacing the sales unit and Butane mixing pumps of KOTC.

The storage tanks will be constructed in two stages; the first includes building four tanks, and the mechanical works of these storage tanks were recently completed. It is expected that the operation procedures will start in September 2017. The second stage, includes construction of six storage tanks, is expected to be completed in December 2017.

So far 92.7 % are completed of the KD 215 million Project, with expected commissioning date in April 2018.

Fifth Gas Train Project

New Acid Gases treatment unit and revamping the current unit

The Project includes construction of a new unit for acid gases treatment and revamping of the current unit in MAA Refinery to treat all acid gases expected to be produced in KOC. The aim is to reduce the percentage of Sulfur Oxides emissions to the K- EPC permitted limits and converting Hydrogen Sulfide to Sulfur. It is in line with the KPC strategy in reducing the gas flaring to less than 1%. The total budget of the Project was set to be KD 250 million. About 90.9 % of the project has been accomplishment is and it is expected to finish execution in February 2020.

Construction of new Sulfur Handling facilities & revamping the existing facilities

The Project includes the construction of new facilities for Sulfur handling in MAA Refinery, enhance the efficiency of current units and increase the handling capacity of the expected Sulfur production, as well as increase the loading speed rate for big ships. The Project also includes other Health, Safety and Environment-related works to keep up with K-EPA.

Recently, the mechanical works of the new facilities have been completed, whereas the current Sulfur handling equipment are under improvement and development works. About 92 % of the Project works are accomplished so far, and it is expected to be commissioned in January 2019. The Project's updated budget is KD 210 million.

Liquid Sulfur treatment facilities Project

This Project is executed according to KPC's instructions and in accordance with KOC. It aims at the construction of Sulfur handling facilities in MAA Refinery with a capacity of 1,000 tons per day of liquid Sulfur produced by KOC. The Project includes supplying and construction of integrated facilities to receive and store liquid Sulfur, storage tanks and a special pit for Sulfur storage, in addition to unloading equipment, transport pumps and weight scales. It also includes building a Sulfur granulation unit. The estimated budget of the Project is KD 30 million. It is expected to be completed in December 2019.

LPG North Tank Farm Project

Chapter Four

Health, Safety & Environment

"The company applies the latest technologies in Health, Safety and Environment, and this represents a priority"

Health, Safety and Environment (HSE) represents a high priority in all company works, and this concern in such matters is not lesser than its core operations. The company is very keen to sustain constant developments in order to enhance safety levels in all operations and facilities. The aim is to ensure that no damage is inflicted, be it to humans or surrounding environment. This concern goes in parallel with maintaining a free of accident record as a true criterion for credibility, reliability and success of the company in its works and goals achievement. The company contractors and the different sectors of Kuwaiti society are also part of this enterprise. Within this frame, the company imposes in its contracts compulsory stipulations on its contractors forcing close adherence to rules of HSE to ensure safe and accident-free works and operations.

The company started implementation of the Integrated Management System (IMS) that will combine Quality Management System (ISO 9001), Occupational Health & Safety Management System (OHSAS 18001) and Environment Management System (ISO 14001). The program will raise the efficiency of applying the three systems to comply with the international standards requirements.

In January 2017, the company launched "Improving the Culture of Health, Safety and Environment" Project that aims to enhance and outline solutions to improve the culture of HSE, prepare an effective execution plan and enhance the effectiveness and performance of the employees through training and practice. Workshops will be organized in different work locations for the company employees and contractors. Personal meetings with the top Management to be held in reflection of high commitment to the Project goals represented by enhancing all employees' HSE performance.

The company organized the 10th Annual HSE Performance Award in which the company departments, employees, families and different entities in Kuwait, such as universities and schools among others, participated.

The company also organized the 10th Contractors HSE Day under the slogan "Partners in Development." The event mirrored the strong relations with the contractors and their great and integrated role, given the volume of the main works they execute. The meeting included many lectures about contractors' safety programs and applications, and the conditions of safety imposed on the contractors and suppliers during the prequalification stage.

Health

- The training courses that aim at embedding the culture of health and enhancing the efficiency of employees in following the right and safe practices are conducted round the clock. The company organizes round-the-year awareness campaigns to reinforce health culture, such as the "Your Health in Safe Heart" program, which focused on the prevention of heart diseases. Other presentations spoke about stomach viruses, breast cancer, autism, back pains, sitting properly and how to lose weight. Blood donation campaigns were also organized in different company locations to fulfil the needs of the Central Blood Bank.

- Among the company's prominent activities in the field of health as an embodiment of its social role and concern in disseminating the culture of occupational safety and health, the Health Day was organized in the Feheheel Industrial Area and another one in the Al-Ahmadi Industrial Area. The company physicians provided medical tests and consultation services for about 1,290 workers. Following success and positive response last year, the Occupational Health Day was held for the second year in a row.

- The company also participated in the Oral Hygiene Campaign which was held in the Al-Ahmadi Educational Area.

Safety

- The company, represented by four sites (MAB, SHU Refinery, Local Marketing, Head Office), received the prestigious international British Safety Council Award for the year 2017. The Local Marketing department and SHU Refinery won the Distinguished Award; whereas MAB and the Head Office won the Competency Award. MAB Refinery also received the international Award offered by the British

14 new firefighting trucks joining KNPC fleet

Royal Society for Protection of Accidents (RoSPA). These Awards were received in appreciation of the company's efforts and adherence to the health and safety during the year 2016.

- The company continuously conducts firefighting training in all facilities. The training aims at evaluating the adopted security and safety procedures to guarantee precise and quick response as well as having full readiness and ability to deal with all kinds of accidents around the clock.

- The company signed a joint cooperation protocol with the General Fire Directorate to exchange expertise, activities and mutual trainings in order to enhance the capability to deal with any oil or industrial accidents that require full and highly professional readiness. The protocol aims to increase the speed of response to confront emergency cases, especially those which require immediate and calculated intervention in correspondence with the risks involved in the oil facilities. Such risks need to be handled with utmost degree of responsibility as they involve the protection of lives, environment and properties.

- During this year, 14 new firefighting trucks joined the company fleet to make a quality addition to the fire brigade capabilities. With their high specifications and enhanced capabilities to face all emergency cases, the trucks are suitable for oil Refineries work environment. They provide the Fire Brigade with speed and flexibility as well as better protection in the most difficult conditions. The trucks were distributed to the fire stations in the Refineries and Local Marketing storage tanks.

- KNPC is diligent in cooperating with different educational institutions as part of interaction with society to enhance safety and limit general accidents. In this regard, the company holds awareness lectures for school students on the proper practices at home, school and road. The aim is to instill the culture of safety, disseminate security awareness and avoid traffic, home and fire accidents.

At KNPC 10th Annual HSE Performance Award ceremony

Environment

The protection of our environment is given a high priority. Efforts are focused on minimizing the environmental effects of the company operations. This is achieved through carrying out numerous Projects that aim to reduce power consumption, decrease and treat gas emissions, solid and liquid waste. The company also carries out different initiatives and programs to enhance environmental awareness of employees as well as society in general:

- In April 2016, the company conducted an expanded campaign to clean stables and camps in Mina Abdullah wharf. The campaign carried the slogan "Let's Keep it Clean." Another campaign was also organized to clean the Mangaf beach in January 2017 in which 60 employees participated. The aim was to preserve the marine environment and the country beaches against all forms of pollution. Other campaigns were also conducted to clean Al-Bilajat beaches in which some employees' children participated.

  It is worth mentioning that the company organizes these environmental campaigns around the year to preserve, both the marine and land environments and to instill this praiseworthy culture among all classes of society, both Kuwaitis and residents.

- Seeking to raise environmental awareness and full understanding of the safe-work culture and safety requirements, the HSE department launched awareness campaigns for all employees, such as a campaign to manage the industrial waste water.

Acid Gas Teatment Unit Project

- In cooperation with the International Petroleum Industry Environmental Conservation Association (IPIECA), the HSE department organized a workshop in May 2016 to tackle many issues concerned with oil spills, global warming and the best substitutes to provide a healthy environment. The workshop was attended by a number of employees from the company and KPC oil companies. IPIECA cares for environmental and social issues resulting from activities of oil and industrial companies. It has members of international-level oil companies.

- As part of KNPC's adherence to the highest level of quality and excellence, the company launched the "Environment-friendly purchasing policy" initiative. The initiative, led by the Commercial department, necessitates that the preservation of Kuwait environment should be taken into consideration when the company's materials and services are purchased. Thus, the company encourages all its dealers, suppliers and consumers to keep our environment clean and healthy.

- The company executed different Projects during the Fiscal Year 2016/2017 that aim at improving the levels of health and safety and limit the environmental effects, such as:

New Acid Gases Treatment Unit (AGTU) Project and revamping the current unit

- A new acid gases treatment unit will be constructed in MAA Refinery and the current unit will be revamped. The aim is to enhance the company capabilities in the treatment of all acid gases expected to be produced from KOC oil fields. The Project is consistent with KPC's strategy in reducing the gas flaring to less than 1%. The total budget of the Project is KD 250 million and is expected to be commissioned in February 2020.

Upgrading of the old fire detection, alarm and prevention systems and disposing of Halon System

Operation of these systems began in March 2017. The completed Project aimed to develop the fire detection, alarm and prevention systems, as well as disposing of the Halon system.

The disposal of Halon system came as a result of Kuwait's compliance with "Montreal Protocol" regarding the negative effect of the Halon material on the ozone layer. The budget of the Project reached KD 77.7 million.

Construction of a new Tail Gas Treatment Unit (TGTU) Project

The Project is already commissioned and operations are well underway. The Project comprised of the construction of a new unit to treat tail gases which come from sulfur recovery units in the Further Upgrading Project (FUP) in MAA Refinery, with production capacity equivalent to 460 tons of Sulfur per day, as well as adding some facilities and equipment in Hydrogen Sulphide Gas Recovery Unit (HSR-90). Thus, the quantity of environment-polluting gases due to flaring process will be limited in case they are not processed. The Project will also fulfil the K-EPA criteria regarding SO2 emissions from the incinerator stack which should not exceed 250 ppm. The total budget of the Project reached KD 34.7 million.

Construction of a new Flare Gases Recovery Unit (FGRU)

The KD 21.6 million Project aims at recovering large amounts of flare gases which can be used as an energy source instead of flaring and polluting the environment. This Project is registered as a UN Clean Development Mechanism (CDM) Project. Most of the works of the Project which are located in MAB Refinery, have been finished; it is expected to be commissioned in October 2017.

Phase-II of the Vapor Recovery Project at filling stations

This Project aims at recovering hydrocarbon vapors resulting from fueling operations at the company's filling stations. This will reduce exposition to volatile organic compounds when fueling vehicles. It will also generate financial returns from these volatile materials. The Project is complementing Phase-I for vapor recovery at Al-Ahmadi and Subhan tank farms in the Local Marketing department. It is expected to be completed in October 2017.

Treatment of contaminated soil in MAB Refinery

In the framework of its efforts in the field of environment protection and pollution limitation, the company, in cooperation with the Kuwait Institution for Scientific Research (KISR), have executed the contaminated soil treatment Project in MAB Refinery. The treatment is carried out at the old ground tanks locations (pits) that were used in the past to store the crude oil. The amount of this soil is about 70,000 cubic meters, out of which 41,600 cubic meters with 1-5 percent of contamination, 16,500 cubic meters with 5-10 percent contamination and 1,245 cubic meters of highly contaminated soil. The latest treatment techniques were used which resulted in large quantities of reclaimed soil suitable for gardening works after reducing the rate of pollution to less than 1 percent.

Vapor Recovery Unit at Al-Ahmadi tank-farm

Under same context, the “Filling Stations Greening with Reclaimed Soil” Project was launched in January 2017. The beginning was in station No 12 in Al-Ahmadi area, where a number of plants were planted in the reclaimed soil. Later, more stations will be greened.

Renewable energy (solar power) Projects inside the company facilities

In line with His Highness the Amir`s desire to concerne 15% of energy in the State of Kuwait from the renewable sources (solar power) by 2030, and following KPC’s instructions to the subsidiary companies to keep on following this directive and achieve this rate in the oil sector by 2020, the company will introduce the concept of Renewable Energy within its plan to build 100 new filling stations Project in different areas of Kuwait as well as in the construction of new petroleum products tank farm in Al Mitlaa.

Similarly, the company also carried out several studies and initiatives as follows:

- **Installation of solar panels in the Local Marketing storage tanks and fuel stations**

  The company contracted with a consultation company to study the possibility of using the renewable energy technology, such as solar power, in the Local Marketing storage tanks. The technical studies to use the solar energy in ten of the company’s filling stations were concluded. It is expected to float a tender for executing these works soon.

- **Installation of solar panels in the company Refineries and Head Office**

  In cooperation with KISR, another study was conducted to identify the suitable places to install solar panels on the roofs of buildings, car parks and other exposed areas for generating electricity and feeding the public electricity grid. 45 locations were selected to install the panels to produce 19 megawatts of electricity.

- **Construction of a solar energy station to produce 1,000 megawatts of electricity (Al-Dibdiba Project)**

  The company led a team, with members from KPC and oil sector companies, to supervise the special studies related to building a 1,000-megawatt solar energy station Project inside Al-Shagaya renewable energy complex, which is located 100 km west of Kuwait City. After receiving the required approvals, the company expects to start the Project execution by July 2018.

Chapter Five

Achievements & Initiatives to Improve Performance

> KNPC was a main founder of the Gulf Downstream Association, which includes a group of local and Gulf oil companies

The company holds many activities and initiatives that aim at enhancing performance, developing local and international relations to facilitate and advance its works as well as expand its role in the Kuwaiti economy in general. Some of these initiatives are:

- The Cost Optimization & Profit Improvement (COPI) special Committee continued its works. Many programs and initiatives were launched which resulted in numerous achievements, financial savings and revenues estimated at US$ 670 million.

- The company launched a campaign to enhance engagement with the stakeholders that involved workshops in all departments to explain the importance of creating a constructive relationship with the stakeholders and setting an approach to expand it. Due to important benefits, the company seeks to enhance the relationship with stakeholders to keep them updated and fully acquainted with the company work environment and risks involved in its works. It will also facilitate the execution of the company big Projects like the CFP.

- The company took over the management of the CPAC third session for 2014/2016. This Council aims at supporting local manufacturers, suppliers and contractors to increase their participation in the oil sector Projects and other works. The several launched initiatives contributed in creating opportunities that the national private sector companies benefited from. CPAC was founded in 2009 as an activation of the KPC policies; it includes 17 members representing the oil companies, contractors, suppliers and manufacturers, governmental and non-governmental bodies, for expanding the participation of the Kuwaiti private sector in the oil sector Projects and works as well as creating a mechanism to encourage the national industry.

CEO Al-Mutairi speaking at the Oil Sector Leaders Meeting

- As a main founder, the company participated in establishing the Gulf Downstream Association (GDA) that includes many local and Gulf oil companies: Saudi Aramco, Bahrain Petroleum Company and KPI. The company attended the start-up meeting that was held in August 2016 in Bahrain. The GDA aims at enhancing Gulf cooperation in the field of refining, exchanging expertise and knowledge among the oil companies, industries, and investment commissions, and raising the efficiency of the employees in this vital sector.

- The company organized the Oil Sector Leaders Annual Forum -2016. The Forum shed light on the sector 's strategy in all its segments, and the achievements of each oil company. It also formed a suitable opportunity to exchange the ideal practices, lessons learned and enhancement of integration among the Kuwaiti oil companies.

- In October 2016, within the frame of continuous coordination among the oil sector companies to exchange the best practices, the KNPC IT department held a meeting with KOC for acquaintance with the automated system "Bravo". A similar meeting was held with the Information and Communication Technology Group in KOTC.

- The company signed a memorandum of understanding with the Gulf Organization for Research and Development (GORD) regarding environmental issues and green buildings. The aim was to enhance R&D cooperation in the environmental issues relted to oil and gas, adopt the "Green Building" concept through applying the criteria of Global Sustainability Assessment System (GSAS) on the company's current and future Projects, training and developing the human resources in the field of green buildings and its criteria.

- The company signed a memorandum of understanding with the Japan Cooperation Centre-Petroleum regarding the "Researchers Study Program." An expert from the Center was delegated to determine the opportunities of scientific research in the fields of emerging innovations and technology in the oil residue desulfurization units.

- The company participated effectively in the success of the electronic communication Project in the oil sector (K2K), which was inaugurated in December 2016. The Project team included a large number of KNPC employees.

- In February 2017, KNPC organized the Third Annual Maintenance Summit attended by interested individuals and experts from inside and outside Kuwait to discuss different issues and updates related to the maintenance processes. The Summit was accompanied by an exhibition of maintenance-related products and services

- The company signed a cooperation protocol with KIPIC in December 2016, through which KNPC offers the technical and logistic support for the new company in its foundation stage. The three-year renewable protocol allows the new company to use the service and operating contracts of KNPC.

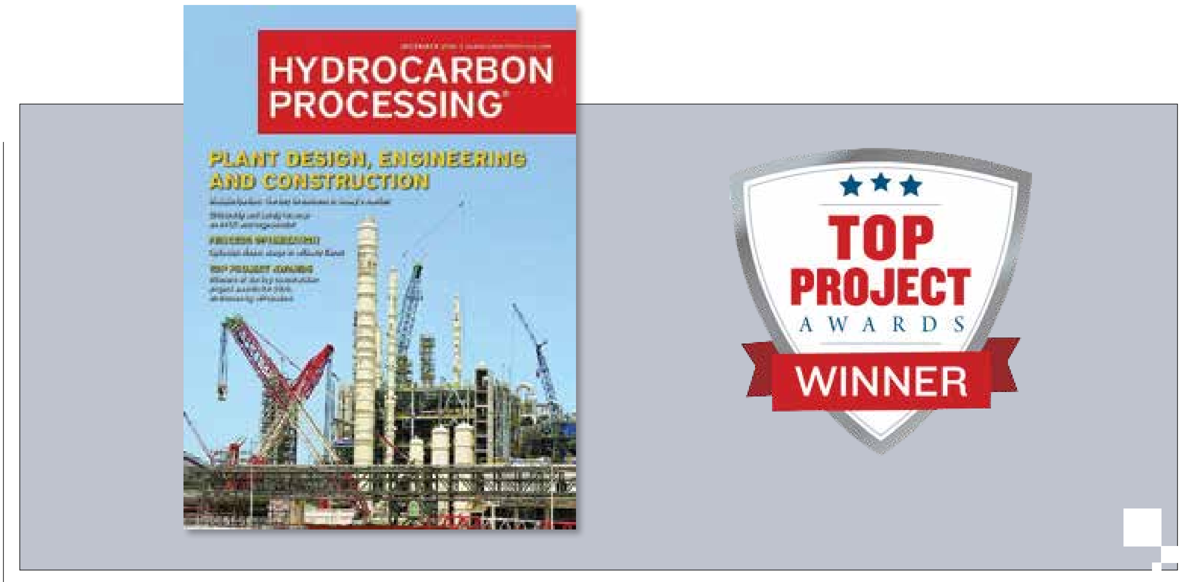
- In order to expand the private sector participation in the oil sector activities and Projects, a memorandum of understanding was signed in November 2016 between KNPC and Green Carbon company to study the possibility of providing this company with CO_2 from MAB Refinery to be used in Enhanced Oil Recovery (EOR).

Prizes collected by the company

- The international "Hydrocarbon Processing" Magazine, specialized in oil and gas industry, selected CFP as the Best Project for 2016, due to its great influence on the refining and petrochemicals industry on the international and regional level. It was short-listed with nine international Projects distinguished by efficiency and positive jump in fulfilling the increasing international demand for high quality products. The CFP was awarded the first position according to set criteria that included the size of Project, capital expenditure, ability to fulfil the local and regional demand, products diversity and high production capacity.

- The company, represented by four locations (the Head Office, MAB, SHU and Local Marketing) received the esteemed International prize of the British Safety Council for 2017. The Local Marketing and SHU Refinery won the Distinguished Award, whereas MAB and Head Office won the Competency Award. These awards were granted in recognition of the company's efforts and commitment to the health and safety of its employees during the 2016.

- MAB, SHU, Local Marketing and the Projects all won the Royal Society for Prevention of Accidents (RoSPA) Award. Receiving this international award confirms the close adherence of the company Refineries and facilities to HSE systems as part of its efforts to provide a safe work environment and prevent accidents.



CFP selected as the 2016 Best Project

Chapter Six

Manpower & Career Development

"During this Fiscal Year, 394 new employees were recruited, among those 340 Kuwaitis"

Manpower

Total company's work force reached 6,352 employees at the end of the Fiscal Year; with a slight increase of 8 employees from the work force at the end of last Fiscal Year. The Kuwaitis constituted 5,649 employees, i.e. 88.9% of the total work force, with an increase of 136 Kuwaiti employees from the last Fiscal Year.

During this year, 394 new employees were recruited in different company departments, among them 340 Kuwaiti employees.

The following tables show an analysis of the work-force in the company according to departments, gender and nationality. They also show the changes in the numbers of the work-force during the last five years.

Analysis of the employee numbers and the percentage of the Kuwaiti manpower according to departments

Department	31/3/201 6			31/3/2017		
	No. of employees	Kuwaiti workforce		No. of employees	Kuwaiti workforce	
		No.	%		No.	%
Head Office *	1054	926	87.86	1009	937	92.86
Local Marketing	313	296	94.57	293	286	97.61
HSE	176	78	44.32	188	95	50.53
Security & Fire	851	843	99.06	866	860	99.31
Al-Shuaiba Refinery	818	677	82.76	724	622	85.91
MAB Refinery	1194	1039	87.02	1230	1077	87.56
MAA Refinery	1936	1652	85.33	2040	1770	86.76
Sub Total	6342	5511	86.90	6350	5647	88.93
POWs	2	2	100	2	2	100
Rehabilitation **	-	-	-	-	-	-
Sub Total	2	2	100	2	2	100
Pre-appointment Qualification	-	-	-	-	-	-
Frozen	-	-	-	-	-	-
KNPC Total	6344	5513	86.90	6352	5649	88.93

(*) Includes: Top Management, Legal Department, Corporate Planning Department, Corporate Communication Department, Human Resources Department, Financial Affairs Department, General Services Department, Projects-I Department, Projects-II Department, Al-Zour Refinery Management, Commercial Department, T&CD, Management Support Department, Risk Management Department, Manufacturing Optimization Group, Al-Zour Refinery Project, LPG Import Facilities Project, CFP.

(**) This item includes the employees to be re-distributed to the departments according to the Workforce Optimization Study.

Employees distribution according to nationality

Nationality	No. of employees			% of total manpower		% (-/+)
	31/3/2016	31/3/2017	التغيير	31/3/2016	31/3/2017	
Kuwaitis	5513	5649	136	86.90	88.93	2.47
Arab nationals	199	131	(68)	3.14	2.06	(34.17)
Subtotal	5712	5780	68	90.04	90.99	1.19
Non-Arab nationals	632	572	(60)	9.96	9.01	(9.49)
Total	6344	6352	8	100	100	(0.13)

Development of manpower

2009/2008	2010/2009	2011/2010	2012/2011	2013/2012	2014/2013	2015/2014	2016/2015	2017/2016
5324	5447	5562	5880	5805	6644	6464	6344	6352

Occupational Training and Development

- During the Fiscal Year, the company held and participated in many workshops, seminars and lectures which tackled different subjects related to professional requirements. KNPC cooperated with local establishments and international companies in organizing those events. 4004 employees participated in 239 local courses, whereas 1718 employees attended 755 external courses. A number of training courses were also held in KPC's Petroleum Training Centre, in which 3756 employees participated.

Engineers inspecting Refinery equipment

- 130 Engineers of different company departments were enrolled in training programs at the home office of several contractors as part of the training plan for large Projects contracts. This plan aims at training and developing the Kuwaiti staff and improving their level of performance and competency.

- 135 Engineers graduated from S-oJT program after finishing a training period that ranged between one to two years and a half. The graduates were honored in a unified ceremony under the patronage and presence of the CEO.

- The S-oJT Team received the DACUM level 2 professional certificate from Ohio University. This certificate enables its holders of establishing and developing training programs that are related to S-oJT disciplines. All over the world, only 50 people hold this type of certificate.

- The company took in 27 Kuwaiti employees working within the Kuwaiti Gulf Oil Company contractors' contracts and appointed them in its contracts. This is part of KNPC contribution in creating work opportunities through contractors' contracts. Under the same context, the Kuwaiti employees of the SHU Refinery contractors, amounting to 119, were moved to the company contracts in MAA, MAB and Local Marketing.

- The Research & Development Department and Training & Career Development Department, in cooperation with the Kuwait University, launched the second stage of the Higher Education Program to support the Kuwaiti employees who are seeking the Master's Degree (inside Kuwait) while working. The program allows employees to choose the Thesis of study in Engineering that are directly related to their field of work in the company. The program seeks to enhance knowledge and experience as well as overcome the current and future operation challenges.

Honoring SoJT graduates

Chapter Seven

Social Responsibility

“Signing a contract with “Injaz” foundation within which the company sponsors the training of 1,800 students on innovation and leadership skills”

Social Responsibility Represents an essential part in the company strategy. Seeking to expand communication with all classes and components of society represents the criteria for the company's success in playing its main role in supporting Kuwait's economy and developing society. Accordingly, KNPC performs its role with utmost transparency, integrity and responsibility. The company provides distinctive services and numerous contributions, such as:

- Issuing the third Sustainability Report entitled "Message of Sustainable Growth." The Report demonstrates KNPC's commitment to sustainability issues and reflects its vision and role in the development of Kuwait society. It clearly demonstrates its activities, initiatives and efforts in developing the Kuwaiti economy, as well as the challenges it faces regarding the enhancement of safety levels and limiting the negative impacts of its operations on the environment. The Report projects its image and main role in achieving the highest added value to the country's oil wealth.

- Participation in Phase-III of the fish farming Project managed by KISR. It targeted the release of 165,000 of small fish of different kinds to enrich the fish stock and preserve the environment and sea resources.

- Maintained the annual "Celebrate Ability" festival activities in Al-Wataniah Club for people with special needs. The event gives this distinctive group of children the opportunity to show their abilities in confronting difficulties and express their special talents.

- Signing a three-year contract with "Injaz" Kuwait to train 1,800 students. Through non-classical teaching framework, students will acquire leadership skills and develop talents. The courses encourage innovation, spirit of initiation and social skills. Students will also be acquainted with work requirements which will help them achieve future success.

Celebrate Ability festival

- Provide support and sponsorships to many non-profit institutions and authorities, to name a few, the Kuwait Society of Safety Engineers, Kuwait Diving Team, National Union for Kuwaiti Students in Australia, Al-Ahmadi Equestrian race, and many others..

- The publication of several booklets for children to encourage reading and instill the concepts of love of knowledge in them. The booklet "If the Birds Went Away" was issued to clarify the importance of environment preserving, and the booklet «What is Oil» is to promote the oil culture

- Organizing different activities during the Holy Month of Ramadan, including the Iftar Tent that received over 1,000 fasting people daily. Activities also include contests for Quran memorization and reciting in cooperation with the Ministry of Islamic Awqaf Affairs and different sport contests.

- On various occasions and holidays, the company representatives paid visits to hospitals, social care, seniors homes and the people with special needs homes. Gifts were distributed to boost morale and encouragement.

- Organizing campaigns at schools of all levels in all areas of Kuwait to educate the students about safety, public health and how to protect the environment. These campaigns included distributing printouts and awareness gifts on the correct behaviors at the school, home and public places. It also included lectures on the company's activities, Refineries and products.

- Organizing a Marathon for school students in Al-Ahmadi Educational Area attended by a large number of students. This came as part of the company's ongoing efforts to encourage sport among the younger generation to follow healthy lifestyles.

At one of Injaz discussion seminar

Participating in conferences and exhibitions

The company maintains participation in the international conferences and exhibitions to keep employees updated about the latest developments, innovations and technologies used in the refining industry. During the Fiscal Year 2016/2017, KNPC participated in many conferences and exhibitions, as follows:

- For the second consecutive time, "KNPC," in cooperation with EQUATE, organized the Third Kuwait Industrial Automation & Control System Cyber Security Conference – 2017 (KIACS) and the accompanying exhibition. The event saw the participation of representatives of many oil, gas, petrochemicals and information technology companies. The conference was an excellent opportunity to enhance Cyber Security and the ability to address the major electronic threats that the oil industry is exposed to.

- The company participated in the 10th Middle East Refining and Petrochemicals Conference and Exhibition - 2016 (PETROTECH) in the Kingdom of Bahrain during September 2016. Kuwait oil sector participated heavily in the conference giving a clear indication of Kuwait refining and petrochemicals huge growth locally and globally. A number of the company's experts and engineers presented workpapers related to the refining industry.

- The company participated in the 24th Technical Conference of the GCC Gas Processors Association, which was hosted by Kuwait in May 2016 under the patronage of the Minister of Oil. The event was held under the theme "Best Practices, Innovations and Technology in Gas Processing." The CEO delivered a lecture at the inauguration ceremony about the future of gas industry, gas production in Kuwait, current and future Projects. The conference activities, organized with a platinum sponsorship from the company, included workshops and discussions that revolved around the challenges facing the oil and gas industry, especially with the current sharp drop in oil prices. Opportunities for integration between gas, refining and petrochemicals process operations in the GCC countries were also discussed.

- KNPC participated in Kuwait 2nd Social Responsibility Conference and Exhibition, which focused on enhancing the role of companies and institutions in developing and improving educational, cultural, economic and social security levels. The company demonstrated its efforts in the development of social, economic development and environment protection, while adopting the concept of sustainability, transparency and ethical practices in all activities.

- Other local conferences and exhibitions in which the company also participated in were the 2nd Technological Innovation Conference & Exhibition, Kuwait International Book Fair, First Annual Exhibition for Health, Food and Special Needs, Fire Exhibition in Souk Sharq, and many similar events.

Chapter Eight

Financial Report

The financial statements incorporated in the Report represent the company position on 31.3.2017 in comparison with the previous Fiscal Year ending on 31.3.2016. The total assets appeared in the Balance Sheet amounted to KD 8,670,211,931 compared to KD 6,339,087,048 in the Fiscal Year ending on 31.3.2016, showing an increase of KD 2,331,124,883.

Revenues

The company total revenues totaled KD 6,609,682,600, i.e. a decrease of KD 153,709,797 from previous year detailed as follows:

Description	2017/2016	2016/2015
Oil refining revenues	4,939,791,821	5,211,711,197
Gas liquefaction revenues	1,634,867,795	1,532,133,083
Carwash and other activities revenues (Local Marketing)	247,087	306،998
Other revenues *	34,775,897	19,241,119
Total revenues	6,609,682,600	6,763,392,397

* Includes interest on deposit, foreign currencies exchange, return on investment with a sister company, sale of depleted catalysts, obsolete and deteriorated assets

The company continued the marketing of petroleum products in the local market on behalf of KPC which amounted to KD 445,742,032 in the current Fiscal Year compared to KD 340,318,342 in the previous one.

Profit & Loss

The company operations during the Fiscal Year 2016/2017 revealed a net profit of KD 215,695,109 compared to last year's profit of KD 175,697,195.
The breakdown of the company profit & loss is detailed as follows:

Description	KD
Profits (losses) resulting from oil refining & gas liquefaction	190,657,616
Profits (losses) resulting from local marketing activities	124,822
Other revenues	34,775,897
Remunerations	(9,799,426)
Remuneration for Board Members	(63,800)
Total profits (losses)	215,695,109

Content

KPMG Safi Al-Mutawa & Partners
Al Hamra Tower, 25th Floor
Abdulaziz Al Saqr Street
P.O. Box 24, Safat 13001
State of Kuwait
Tel.: +965 2228 7000
Fax.: +965 2228 7444

Independent Auditor's Report

The Shareholders
Kuwait National Petroleum Company K.S.C.
State of Kuwait

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kuwait National Petroleum Company K.S.C. ("the Company") which comprise the statement of financial position as at 31 March 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Matter

The financial statements of the Company for the year ended 31 March 2016, were audited by another auditor who expressed an unmodified opinion on those financial statements on 15 May 2016.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is the Board of Directors report included in the Company's annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Companies Law No. 1 of 2016 and its Executive Regulations and the Company's Memorandum and Articles of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the Board of Directors' report agrees with the books of accounts of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016 and its Executive Regulations, or of the Company's Memorandum and Articles of Association during the year ended 31 March 2017 that might have had a material effect on the business of the Company or on its financial position.

Safi A. Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Kuwait: 2 May 2017

	Notes	2017 KD'000	2016 KD'000
Revenue	*4*	6,574,907	6,744,151
Cost of sales	*5*	(6,230,251)	(6,439,500)
Gross profit		344,656	304,651
General and administrative expenses	*6*	(153,873)	(148,129)
Other income	*7*	11,784	5,489
Provisions- net	*8*	(9,799)	-
Share of profit of an associate	*10*	22,658	13,562
Interest income		283	133
Foreign exchange gain		50	57
Profit before board of directors' remuneration		215,759	175,763
Board of directors' remuneration	*21*	(64)	(66)
Profit for the year		215,695	175,697
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences	*10*	1,442	697
Other comprehensive income for the year		1,442	697
Total comprehensive income for the year		217,137	176,394

The accompanying notes form an integral part of these financial statements.

Kuwait National Petroleum Company K.S.C.
State of Kuwait
Statement of financial position
for the year ended 31 March 2017

	Notes	2017 KD'000	2016 KD'000
Assets			
Property, plant and equipment	9	5,504,673	3,492,036
Receivable from the Parent Company	14	147,570	130,000
Investment in an associate	10	148,003	123,903
Deferred expenses	11	16,861	17,912
Non-current assets		5,817,107	3,763,851
Inventories	12	440,047	316,369
Trade receivables	13	40,077	26,805
Due from related parties	14	1,746,177	1,641,895
Other receivables and prepayments	15	494,415	573,201
Cash and cash equivalents		91,658	16,966
Assets held for sale	16	40,731	-
Current assets		2,853,105	2,575,236
Total assets		8,670,212	6,339,087
Equity and liabilities			
Share capital	17	1,587,000	1,587,000
Statutory reserve	18	169,140	147,570
Foreign currency translation reserve		11,838	10,396
Total equity		1,767,978	1,744,966
Financing received from the Parent Company	14	4,641,932	3,606,708
Employees' end of service benefits	19	248,583	224,456
Term loans	20	1,097,000	-
Non-current liabilities		5,987,515	3,831,164
Trade payables		2,825	5,617
Other payables and accruals	21	686,343	577,946
Dividends payable	22	194,125	158,127
Due to a related party	14	31,426	21,267
Current liabilities		914,719	762,957
Total liabilities		6,902,234	4,594,121
Total equity and liabilities		8,670,212	6,339,087

The accompanying notes form an integral part of these financial statements.

Jamal Al-Nouri
Chairman

Mohammed G. Al- Mutairi
Chief Executive Officer

Kuwait National Petroleum Company K.S.C.
State of Kuwait
Statement of changes in equity for the year ended 31 March 2017

	Share capital	Statutory reserve	Foreign currency translation reserve	Retained earnings	Total equity
	KD 000'	KD 000'	KD 000'	KD 000'	KD 000'
Balance at 1 April 2015	260,000	130,000	9,699	-	399,699
Total comprehensive income					
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 17)	1,327,000	-	-	-	1,327,000
Transfer to reserve	-	17,570	-	(17,570)	-
Dividends (Note 22)	-	-	-	(158,127)	(158,127)
Balance at 31 March 2016	1,587,000	147,570	10,396	-	1,744,966
Balance at 1 April 2016	1,587,000	147,570	10,396	-	1,744,966
Total comprehensive income					
Profit for the year	-	-	-	215,695	215,695
Other comprehensive income	-	-	1,442	-	1,442
Total comprehensive income for the year	1,587,000	-	1,442		217,137
Transfer to reserve	-	21,570	-	(21,570)	-
Dividends (Note 22)	-	-	-	(194,125)	(194,125)
Balance at 31 March 2017	1,587,000	169,140	11,838	-	1,767,978

The accompanying notes form an integral part of these financial statements.

Kuwait National Petroleum Company K.S.C.
State of Kuwait

Statement of cash flows for the year ended 31 March 2017

	Details	2017 KD 000'	2016 KD 000'
Cash flows from operating activities			
Profit before board of directors' remuneration		215,759	175,763
Adjustments for:			
Depreciation	9	48,995	43,273
Provisions- net	8	9,799	-
Amortisation of deferred expenses	11	16,097	14,722
Share of profit of an associate	10	(22,658)	(13,562)
Gain on sale of property, plant and equipment		-	(192)
Gain on sale of catalysts	7	-	(607)
Provision for employees' end of service benefits	19	67,159	76,522
Interest income		(283)	(133)
Foreign exchange gain		(50)	(57)
Reversal of allowance for obsolete inventories		-	(4,733)
		334,818	290,996
Changes in:			
- inventories		(142,314)	133,501
- trade receivables		(13,272)	(516)
- due from related parties		(446,749)	(645,941)
- other receivables and prepayments		78,786	(151,584)
- trade payables		(2,792)	2,498
- other payables and accruals		113,508	323,790
- due to a related party		10,695	(10,366)
		(67,320)	
Employees' end of service benefits paid	19	(43,032)	(41,828)
Board of directors' remuneration paid	21	(66)	(60)
Net cash used in operating activities		(110,418)	(99,510)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(2,100,324)	(1,356,800)
Proceeds from sale of property, plant and equipment		-	192
(Purchase) of / proceeds from sale of catalysts	11	(15,046)	607
Interest income received		283	133
Net cash used in investing activities		(2,115,087)	(1,355,868)
Cash flows from financing activities			
Proceeds from term loans	20	1,097,000	-
Funding from the Parent Company	14	1,203,197	1,405,994
Net cash from financing activities		2,300,197	1,405,994
Net increase / (decrease) in cash and cash equivalents		74,692	(49,384)
Cash and cash equivalents at beginning of the year		16,966	66,350
Cash and cash equivalents at end of the year		91,658	16,966

The accompanying notes form an integral part of these financial statement

1- Reporting entity

Kuwait National Petroleum Company K.S.C. (the "Company" or "KNPC") is a Kuwaiti shareholding company established in 1960. The Company is 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"). The Parent Company is wholly owned by the Government of 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% (2016: 99%) of the Company's revenue is earned from the Parent Company.

These financial statements were approved and authorized for issue by the Board of Directors on 25 April 2017 and are subject to approval of the Parent Company at the Annual General Assembly, which has the power to amend these financial statements after issuance at the Company's Annual General Assembly.

2- Basis of preparation

a. Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the requirements of the Companies Law No. 1 of 2016 and its Executive Regulations, and the Company's Articles of Association and the Ministerial Order No. 18 of 1990.

b. Basis of measurement

The financial statements have been prepared on historical cost or amortised cost basis.

c. Functional and presentation currency

The financial statements are presented in Kuwaiti Dinars, which is the Company's functional currency. All financial information presented in Kuwaiti Dinars has been rounded to the nearest thousand.

d. Use of estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

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.

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 455,226 thousand (2016: KD 332,659 thousand). Their related provisions for slow moving and obsolete items relating to spare parts and catalyst were KD 15,179 thousand (2016: KD 16,290 thousand). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of profit or loss.

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.

c- Changes in accounting policies

The Company has adopted the following revised and newly issued IFRSs effective for annual periods beginning on 1 April 2016:

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

The amendments clarify the principle in *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a 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 applied prospectively and do not have any impact on the Company, given that it has not used a revenue-based method to depreciate its non-current assets.

Annual Improvements 2012-2014 Cycle

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. This amendment did not have any impact on the financial statements of the Company.

IFRS 7 Financial Instruments: Disclosures Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of income and other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to statement of income.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of income and other comprehensive income. These amendments do not have any impact on the financial statements of the Company.

3- Significant accounting policies

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements, except as disclosed in Note 2 (e).

a- 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 property, plant and equipment and borrowing costs for long-term construction Projects if the recognition criteria are met. When significant parts of property, 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 property, 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.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative year are 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	5 to 15 years

Freehold land and assets under construction are not depreciated.

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

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.

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 profit or loss when the asset is derecognised.

b- 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.

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.

c- Investments in 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 other comprehensive income ("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 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.

Dividend received from associates are reduced from the carrying value 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 profit or loss.

d- 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 (Note 1) less all estimated costs of completion and costs necessary to make the sale.

Spare parts, materials and supplies mainly used in operations are valued at lower of cost and net realisable value. Cost is determined using the weighted average cost method. Provision is made for slow moving items where necessary and is recognised in the statement of profit or loss.

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.

e- Deferred expenses

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

f- Financial instruments

i) i- Non-derivative financial assets and financial liabilities – recognition and derecognition

The Company classifies non-derivative financial assets and liabilities into loans and receivables and other liabilities respectively.

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Other financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Company does not hold any derivative financial assets.

ii) Non-derivative financial assets – measurement

Loans and receivables

At the reporting date, non-derivative financial assets classified into loans and receivables category comprise cash and cash equivalents, receivable from the Parent Company, trade receivables, due from related parties and other receivables and prepayments.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (Note 3(g)).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks and call deposits with maturities of three months or less from the date of placement.

iii) Non-derivative financial liabilities – Measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

At the reporting date, non-derivative financial liabilities classified into other financial liabilities category comprise of term loans, financing received from the Parent Company, due to a related party, trade payables, dividend payable and other payables and accruals.

iv) Share capital

Share capital is classified as equity.

g- Impairment

Financial asset

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Specific provision for impairment is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of specific provision is determined as the difference between the carrying amount and the recoverable amount of the asset.

Losses are recognised in the statement of profit or loss and other comprehensive income and reflected in an allowance account against receivables. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of profit or loss and other comprehensive income.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

A reversal of an impairment loss is recognized immediately in profit or loss.

h- Employees' end of service benefits

The Company is liable for post employment benefits under the Oil Sector Law and the Labor Law.

Kuwaiti employees

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, is charged to profit or loss in the year to which they relate. The difference between Oil Sector Law and Labor Law is also accrued for Kuwaiti employees.

Expatriate employees

Expatriate employees are entitled to an end of service indemnity payable under the Kuwait Labor Law and the Company's by-laws based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. Provision for this unfunded commitment which represents a defined benefit plan, has been made by calculating the notional liability had all employees left at the reporting date.

i- Foreign currency transactions

Transactions in foreign currencies are translated into KD at rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into KD at rates of exchange prevailing at reporting date. The resultant exchange differences are recorded in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

The assets and liabilities of foreign operations are translated into KD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into KD at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest.

j- Assets held for sale

Assets classified as held for sale are separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities classified as held for sale are presented in current assets and liabilities of the statement of financial position.

k- 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. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using rates that reflect, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

l- Borrowing cost

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital Project under construction are capitalised and added to the Project cost during construction until such time the assets are substantially ready for their intended use, i.e. when they are capable of production. Where funds are borrowed specifically to finance a Project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short-term out of money borrowed specifically to finance a Project, the income generated from such short-term investments is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a Project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the year. All other borrowing costs are recognised in the profit or loss account as finance costs in the period in which they are incurred.

Finance cost is recognised in the statement of profit or loss for all interest bearing instruments on effective interest rate basis. The calculation includes all contractual terms of the financial instrument and includes any fee or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

m- 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 profit or loss 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.

n- Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective at 31 March 2017, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's financial results. The Company plans to adopt these pronouncements when they become effective.

IFRIC 22 Foreign Currency Transactions and Advance Consideration, issued in December 2016, addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 22.

IFRS 2 Share-based Payment was amended in June 2016 by the Classification and Measurement of Share-based Payment Transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; a modification to the terms and conditions of share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 2.

IAS 7 Statement of Cash Flows was amended in January 2016 by the Disclosure Initiative. The amendments require entities to provide a reconciliation of financing cash flows in the statement of cash flows to the opening and closing balances of liabilities arising from financing activities (except for equity balances) in the statement of financial position. The amendments are effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to IAS 7.

IFRS 16 Leases, issued in January 2016, replaces the existing lease accounting guidance in *IAS 17 Leases*, *IFRIC 4 Determining whether an Arrangement contains a lease*, *SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted if *IFRS 15 Revenue from Contracts with Customers* is also adopted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

IFRS 9 Financial instruments, published in July 2014, replaces the existing guidance in *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers, issued in May 2014, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

4- Revenue

	2017 KD'000	2016 KD'000
Refined products	4,939,792	5,211,711
Refined products	1,634,868	1,532,133
Local marketing sales	247	307
	6,574,907	6,744,151

5- Cost of sales

	2017 KD'000	2016 KD'000
Cost of crude oil and gas	5,725,714	5,955,684
Staff costs	263,904	263,967
Other costs	177,438	163,592
Amortisation (Note 11)	16,097	14,722
Depreciation (Note 9)	47,098	41,535
	6,230,251	6,439,500

Included in the cost of sales is KD 122 thousand (2016: KD 131 thousand) which represents the cost of ancillary services and products relating to local marketing.

6- General and administrative expenses

	2017 KD'000	2016 KD'000
Staff costs	135,971	134,432
Other costs	34,555	30,860
Depreciation (Note 9)	1,892	1,733
Recovery of local marketing overheads from the Parent Company (Note 14)	(18,545)	(18,896)
	153,873	148,129

7- Other income

	2017 KD'000	2016 KD'000
Gain on disposal of scrap materials	857	1,238
Gain on sale of catalysts	-	607
Insurance recoveries	5,866	-
Others	5,061	3,644
	11,784	5,489

8- Provisions- net

	2017 KD'000
Provision for legal claims	3,200
Provision for assets retirement obligation	2,500
Impairment loss on asset classified as held for sale (Note 16)	14,908
Provision no longer required	(10,809)
	9,799

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							
Balance at 1 April 2016	809,754	2,139,674	224,822	4,706	38,903	2,739,852	5,957,711
Additions	-	-	-	-	1,443	2,098,881	2,100,324
Transfers	23,213	125,805	8,315	57	-	(157,390)	-
Disposals	(4,068)	(488)	(2)	(182)	-	-	(4,740)
Assets classified as held for sale (Note 16)	(68,904)	(147,307)	(17,475)	(5)	(589)	-	(234,280)
Balance at 31 March 2017	759,995	2,117,684	215,660	4,576	39,757	4,681,343	7,819,015
Accumulated depreciation and impairment losses							
Balance at 1 April 2016	725,380	1,528,930	190,185	4,640	16,540	-	2,465,675
Charge for the year	10,242	35,918	1,985	34	2,505	-	50,684
Relating to disposals	(4,068)	(488)	(2)	(182)	-	-	(4,740)
Assets classified as held for sale (Note 16)	(60,969)	(119,848)	(16,218)	(5)	(237)	-	(197,277)
Balance at 31 March 2017	670,585	1,444,512	175,950	4,487	18,808	-	2,314,342
Carrying amounts							
At 31 March 2017	89,410	673,172	39,710	89	20,949	4,681,343	5,504,673

	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							
Balance 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)
Balance at 31 March 2016	809,754	2,139,674	224,822	4,706	38,903	2,739,852	5,957,711
Accumulated depreciation and impairment losses							
Balance 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)
Balance at 31 March 2016	725,380	1,528,930	190,185	4,640	16,540	-	2,465,675
Carrying amounts							
At 31 March 2016	84,374	610,744	34,637	66	22,363	2,739,852	3,492,036

Freehold land, buildings and facilities includes an amount of KD 422,484 (2016: KD 422,484) which represents freehold land. Assets under construction includes an amount of KD 1,264,887 thousand and KD 2,751,228 thousand (2016: KD 523,860 thousand and KD 1,666,842 thousand) relating to Al-Zour Refinery Project ("ZRP") and the Clean Fuel Project ("CFP") respectively. During the year, the Company capitalised borrowing cost amounted to KD 28,895 thousand (2016: Nil) related to CFP.

Impairment testing has been performed by management for each identifiable CGU (excluding ZRP) and the value in use is higher than the attributable CGU carrying value. During the year, the Parent Company established a 100% owned subsidiary, Kuwait Integrated Petroleum Industries Company K.S.C.C. ("KIPIC"). Pursuant to the establishment of KIPIC, the Board of Directors of the Parent Company approved to transfer all assets and liabilities related to ZRP to KIPIC at book value with effect from 1 May 2017. 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:

	2017 KD'000	2016 KD'000
Cost of sales of refined products (Note 5)	47,098	41,535
General and administrative expenses (Note 6)	1,892	1,733
Local marketing costs	5	5
Charged to the Company's statement of profit or loss	48,995	43,273
Charged to the Parent Company in respect of local marketing	1,153	826
Charged to Kuwait Oil Company and other related parties	536	486
	50,684	44,585

10- Investment in an associate

Entity name	Country of Incorporation	Percentage of ownership 2017	Percentage of ownership 2016
Kuwait Aromatics Company K.S.C.C. ("KARO")	Kuwait	40%	40%

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

	2017 KD'000	2016 KD'000
Balance at beginning of the year	123,903	109,644
Share of results	22,658	13,562
Foreign currency translation adjustment	1,442	697
Balance at the end of year	148,003	123,903

The following table illustrates summarised financial information of KARO:

	2017 KD'000	2016 KD'000
Statement of financial position		
Non-current assets	502,464	578,700
Current assets	483,484	515,197
Non-current liabilities	(444,302)	(549,177)
Current liabilities	(171,638)	(234,963)
Net assets	370,008	309,757
Company's share of net assets (40%)	148,003	123,903
Statement of profit or loss and other comprehensive income		
Revenue	379,242	482,480
Profit	56,645	33,906
Company's share of profit and other comprehensive income (40%)	22,658	13,562
Commitments and contingencies	2,574	6,572

11- Deferred expenses

	2017 KD'000	2016 KD'000
Balance at beginning of the year	17,912	21,536
Additions	15,046	11,098
Amortisation charge	(16,097)	(14,722)
Balance at end of the year	16,861	17,912

12- Inventories

	2017 KD'000	2016 KD'000
Crude oil	15,418	11,838
Refined products	355,526	208,740
Maintenance and spare parts	72,797	105,404
Catalysts and chemicals	9,988	5,085
Goods in transit	1,497	1,592
	455,226	332,659
Provision for obsolete and slow moving inventories	(15,179)	(16,290)
	440,047	316,369

As at the reporting date, the Company transferred inventories of KD 18,636 thousand, net of provision for obsolete and slow moving inventories, to assets held for sale (Note 16).

13- Trade receivables

	2017	2016
	KD'000	**KD'000**
Trade receivables	40,264	26,992
Provision for doubtful debts	(187)	(187)
	40,077	26,805

Trade receivables are non-interest bearing and have average credit period ranges from 30-90 days. At the reporting date, trade receivables of KD 187 thousand (2016: KD 187 thousand) were impaired and fully provided for. Trade receivables are denominated in Kuwaiti Dinars and located in Kuwait.

14- Related parties

Related parties include the shareholder and executive officers of the Company, close members of their families and companies of which they are the principal owners or over which they are able to exercise significant influence.

Related party balances reflected in the statement of financial position are unsecured and neither bear any interest nor there are any agreed repayment terms. Accordingly, these balances are treated as recoverable/ payable on demand, except as disclosed below.

The aggregate value of significant related party transactions and outstanding balances other than those disclosed elsewhere in the financial statements are as follows:

	2017 KD'000	2016 KD'000
Balances with related parties		
Due from related parties		
Parent Company	1,745,300	1,639,529
Kuwait Paraxylene Production Company K.S.C.	87	1,979
Kuwait Aviation Fuelling Company K.S.C.	31	33
Kuwait Oil Tanker Company K.S.C.	139	94
Kuwait Gulf Oil Company K.S.C.	124	126
Petrochemical Industries Company K.S.C.	127	39
Kuwait Foreign Petroleum Exploration Company K.S.C.	3	18
Kuwait Petroleum International	46	77
Kuwait Integrated Petroleum Industries Company K.S.C.	309	-
Oil Sector Servicing Company K.S.C.	11	-
	1,746,177	1,641,895
Non- current asset		
Receivable from the Parent Company*	147,570	130,000
Due to a related party		
Kuwait Oil Company K.S.C.	31,426	21,267
Non-current liabilities		
Financing received from the Parent Company**	4,641,932	3,606,708

Movement in financing received from the Parent Company is as follow:

	2017 KD'000	2016 KD'000
Balance at beginning of the year	3,606,708	3,569,249
Advances received	1,203,197	1,405,994
Advances credited to the Parent Company's current account	(167,973)	(41,535)
Amounts transferred to share capital (Note 17)	-	(1,327,000)
Balance at end of the year	4,641,932	3,606,708

*In accordance with Articles of Association, an amount equal to prior year statutory reserve was transferred to the Parent Company. The amount receivable from the Parent Company is unsecured and non-interest bearing, with no fixed terms of payment. This has been classified as non-current as the Company does not intend to request repayment in the short-term.

**Financing received from 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.

As at and for the year ended 31 March 2017, the Company has not recorded any impairment loss against balances due from related parties (2016: nil).

The Company is engaged in carrying out local marketing sales on behalf of the Parent Company which are not reflected in the statement of profit or loss 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 445,715 thousand (2016: KD 370,318 thousand). The direct operating cost relating to local marketing operations incurred by the Company on behalf of the Parent Company amounting to KD 35,489 thousand (2016: KD 39,442 thousand) is also not reflected in the statement of profit or loss and other comprehensive income of the Company. General and administrative costs relating to local marketing amounting to KD 18,545 thousand (2016: KD 18,896 thousand) are also charged to the Parent Company (Note 6).

The Company also charged a portion of the depreciation charge relating to certain assets included in property, plant and equipment to the Parent Company, Kuwait Oil Company and related parties (Note 9).

	2017	2016
	KD'000	**KD'000**
Transactions with related parties		
Sales	6,574,660	6,743,844
Purchases	6,230,129	6,439,369
Financing received from the Parent Company	1,203,197	1,405,994
Key management compensation		
Salaries and short-term benefits	1,073	812
Employees' end of service benefits	251	172
	1,324	984

15- Other receivables and prepayments

	2017 KD'000	2016 KD'000
Prepayments and deposits	11,046	12,081
Advances against Projects	465,306	545,582
Other receivables	18,063	15,538
	494,415	573,201

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

16- Assets held for sale

On 21 March 2017, following a study of viability of continuing operations of Shuiaba Refinery ("SHU"), the Board of Directors decided to discontinue the operations and shut down SHU effective 31 March 2017. Further, the Board of Directors decided to transfer certain assets of SHU to other Refineries of the Company and dispose of the remaining assets. The management concluded that the above said transaction meets the criteria for classification of SHU assets as asset held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations and presented separately in the statement of financial position. The management expects that sale of SHU assets will be completed within one year from date of classification. Further, a Disposal Committee is established and actively working on identification and negotiation with the potential buyers of SHU assets. Following is the carrying value of assets at 31 March 2017, which is presented as held for sale:

	2017 KD'000
Property, plant and equipment (Note 9)	37,003
Inventories (Note 12)	18,636
Provision for inventories (Note 8)	(14,908)
	40,731

On initial classification of assets as held for sale, the management determined the following:

- Estimated fair value less cost to sell of property, plant and equipment is higher than the carrying value as at 31 March 2017. As a result, no impairment loss was recognized; and Estimated fair value less cost to sell of inventories is lower than carrying value as at 31 March 2017. Accordingly, an impairment loss of KD 14,908 thousand is recorded and disclosed in Note 8.

17- Share capital

The authorized, issued and fully paid up share capital of the Company comprises of 1,587 million shares of KD 1 each (2016: 1,587 million shares of KD 1 each) and is fully contributed in cash.

On 10 January 2016, in an extraordinary General Assembly meeting, the Shareholder approved increase in authorised, issued and fully paid up share capital by KD 1,327,000 thousand through transfer of funds from 'financing received from the Parent Company' (Note 14).

18- Statutory reserve

In accordance with the Companies Law and the Company's articles of association, 10% of profit for the year is transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. The shareholders 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.

19- Employees' end of service benefits

	2017 KD'000	2016 KD'000
Balance at beginning of the year	224,456	189,762
Charge for the year	67,159	76,522
Payments made during the year	(43,032)	(41,828)
Balance at end of the year	248,583	224,456

20- Term loans

On 28 April 2016, the Company entered into a long term loan agreement ("Facility") of KD 1.2 billion with a consortium of banks. The Facility consists of both conventional and Islamic financing and is repayable in semi-annual installments of KD 80 million from April 2019 till 28 April 2026. The Facility carries an interest rate of 1% per annum over and above the Central Bank of Kuwait discount rate and is unsecured. The funds were specifically borrowed to finance the CFP.

At the reporting date, details of the Facility is as follows:

	Total Facility	Drawdown	Unutilized funds
	KD'000	**KD'000**	**KD'000**
Conventional financing	710,000	649,058	60,942
Islamic financing	490,000	447,942	42,058
	1,200,000	1,097,000	103,000

21- Other payables and accruals

	2017	2016
	KD'000	**KD'000**
Accrued expenses	380,993	389,435
Accrued utilities	12,891	12,187
Contract retentions	244,729	135,728
Other payables	25,753	23,395
Leave provision	21,977	17,201
	686,343	577,946

Accrued expenses includes an amount of KD 64 thousand (2016: KD 66 thousand) relating to board of directors' remuneration for the year ended 31 March 2017, which is subject to approval of shareholders in the Annual General Assembly.

22- Dividends payable

	2017	2016
	KD'000	**KD'000**
Balance at beginning of the year	158,127	43,946
Profit for the year	194,125	158,127
Amounts transferred to the Parent Company	(158,127)	(43,946)
Balance at end of the year	194,125	158,127

The Company's Articles of Association stipulate that the net profit for the year after transfer to statutory reserve is payable as dividend. Upon the approval of these financial statements, dividend payable will be transferred to the Parent Company.

23- Operating lease arrangements

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.

	2017	2016
	KD'000	**KD'000**
Minimum lease payments recognised as an expense in the current year	5,874	6,209

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

	2017 KD'000	2016 KD'000
Within one year	8,180	7,144
After one year but not more than five years	9,816	13,045
	17,996	20,189

24- Financial risk management

The Company has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's risk oversight committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the trade receivables, due from related parties, receivable from the Parent Company, other receivables and bank balances.

Exposure to credit risk

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

	2017 **KD'000**	2016 **KD'000**
Receivable from the Parent Company	147,570	130,000
Trade receivables	40,077	26,805
Other receivables	18,063	15,538
Due from related parties	1,746,177	1,641,895
Bank balances	91,658	16,966
	2,043,545	1,831,204

The Company manageges credit quality of customers by reference to external credit ratings, if applicable, or to historical information about counter party default rates. Trade receivables are considered to be impaired when the amount is in dispute, customers are believed to be in financial difficulty or if any other reason exists which implies that there is a doubt over the recoverability of the balance due from customers. There are no past due or impaired receivables and the Company does not hold any collateral against these receivables. At the reporting date, majority of the Company's trade receivables represents amounts due from governmental institutions.

At the reporting date, following customers' accounts for more than 85% (2016: 86%) of the outstanding trade receivables balance:

	2017 KD'000	2016 KD'000
First Fuel Marketing Company K.S.C.	13,519	8,814
Al-Sour Fuel Marketing Company K.S.C.	12,279	8,557
Ministry of Defence, Kuwait	7,695	4,787
Ministry of Interior, Kuwait	434	215

The bank balances are maintained with financial institutions of appropriate credit ratings.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate funding reserves fromm the Parent Company, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Company's non-derivative financial liabilities based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

		التدفقات النقدية التعاقدية			
	Carrying amounts KD'000	Within 3 months KD'000	3 to 12 months KD'000	1 to 5 years KD'000	Total KD'000
2017					
Term loan	1,097,000	10,285	30,853	1,467,242	1,508,380
Financing advances due to the Parent Company	4,641,932	-	-	4,641,932	4,641,932
Trade payables	2,825	2,825	-	-	2,825
Dividends payable	194,125	194,125	-	-	194,125
Other payables and accruals	686,343	-	686,343	-	686,343
Due to a related party	31,426	31,426	-	-	31,426
	6,653,651	238,661	717,196	6,109,174	7,065,031
2016					
Financing advances due to the Parent Company	3,606,708	-	-	3,606,708	3,606,708
Trade payables		5,617	-	-	5,617
Dividends payable	5,617	158,127	-	-	158,127
Other payables and accruals	158,127	-	577,946	-	577,946
Due to a related party	577,946	21,267	-	-	21,267
	21,267	185,011	577,946	3,606,708	4,369,665

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices, 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 exposure to market risk arises from:

- Commodity price risk
- Currency risk
- Interest / profit rate risk
- Equity price risk

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.

Currency risk

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.

Interest/ profit rate risk

Interest rate risk is the risk that the fair value or future cash flows of Company's financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is the risk of fluctuations in interest rates on the Company's interest bearing liabilities.

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest/ profit rate movements. At reporting date, the Company is exposed to interest /profit rate exposure on term loans.

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by KD 23,108 thousand (2016: nil). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market.

The Company is not exposed to equity price risk as there are no investments in equity securities.

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, authorization 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.

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.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

In the opinion of the management, the estimated fair value of financial assets and liabilities, except for receivable from / due to Parent Company, that are not carried at fair value at the reporting date is not materially different from their carrying value.

25- Capital risk management

The management's policy is to maintain a strong capital base to sustain future development of the business and maximise shareholder value. In order to determine or adjust the capital structure, the Company monitors its capital structure and makes adjustment to it in light of changes in economic conditions. The Company monitors its capital on the basis of gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is defined as financing received from the Parent Company and term loans less cash and cash equivalents. Total capital is calculated as equity as shown in the statement of financial position.

The gearing ratios at the reporting date are as follows:

	2017 KD'000	2016 KD'000
Financing received from the Parent Company	4,641,932	3,606,708
Term loans	1,097,000	-
Cash and cash equivalents	(91,658)	(16,966)
Net debt	5,647,274	3,589,742
Total equity	1,767,978	1,744,966
Total capital	7,415,252	5,334,708
Gearing ratio	76.16%	67.29%

There were no changes in the Company's approach to Capital Management during the year. Further, the Company is not subject to externally imposed capital requirements, except the minimum capital requirements of the Companies Law No. 1 of 2016 and its Executive Regulations.

26- Capital commitments

As at the reporting date, the Company had commitments in respect of future capital expenditure amounting to KD 449,871 thousand (2016: KD 610,844 thousand). Commitments will be financed by the Parent Company (Note 14).

27- Contingent liabilities

The Company is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Company's financial statements if disposed unfavourably.

Acknowledgment

"The Board of Directors expresses 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, H.H. Sheikh Nawaf Al-Ahmad Al-Jabe Al-Sabah, the Crown Prince and H.H. Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, the Prime Minister for their continued support for KNPC growth and development. The Board also wishes to thank the Ministers, Chairman and Board members of Kuwait Petroleum Corporation as well as the government officials for their support and assistance in facilitating the company's works.

The Board hopes that this patronage and support will continue to the best interest of the national economy and Kuwait's welfare."

شركة البترول الوطنية الكويتية

احدى شركات مؤسسة البترول الكويتية

A Subsidiary of Kuwait Petroleum Corporation

KNPC