شركة البترول الوطنية الكويتية

KNPC

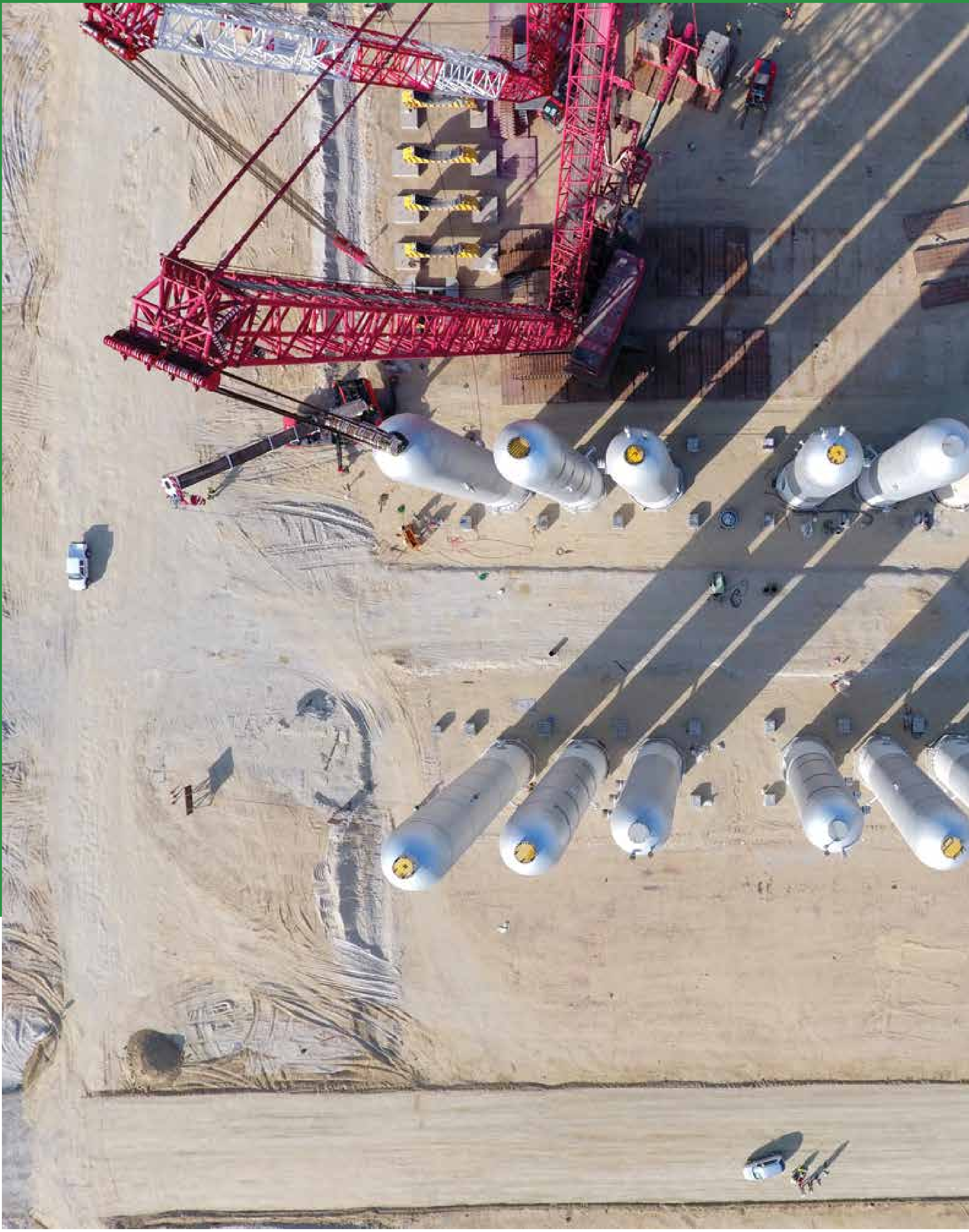
إحدى شركات مؤسسة البترول الكويتية

A Subsidiary of Kuwait Petroleum Corporation

Annual Report

2017 - 2018

New Start



New Start

Annual Report

2017 - 2018

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

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

Contents

BOARD OF DIRECTORS

Mr. Jamal Al-Nori
Board Chairman

Ms. Hosniah Hashem
Deputy Chairman

Mr. Mohammad Al-Mutairi
CEO

Sheikh Talal Al-Sabah
Board Member

Ms. Shaimaa Al-Ghonaim
Board Member

Mr. Naser Al-Saleh
Board Member

Mr. Khalid Al-Mushaileh
Board Member

TOP MANAGEMENT

Mr. Mohammad Ghazi Al-Mutairi
CEO

Mr. Mutlaq Al-Azmi
Deputy CEO, MAB

Mr. Fahad Al-Dehani
Deputy CEO, MAA

Mr. Abdullah Al-Ajmi
Deputy CEO, Projects

Mr. Basem Al-Issa
Deputy CEO, Admin. & Commercial

Mr. Naser Al-Shamma
Deputy CEO, Support Services

Mr. Jamal Al-Loghani
Deputy CEO, Fuel Supply Operations

Mr. Khalid Al-Khayyat
Deputy CEO, Planning & Finance

Message from the Chief Executive Officer

I am so delighted to introduce hereby the Kuwait National Petroleum Company Annual Report for the Fiscal Year 2017/2018 that details the company's activities, achievements and highlights reflecting the great efforts which the employees have not spared, whether in its core business or in the other associated issues, such as health, safety and environment and further upon performing its role in achieving social development.

Furthermore, I would like to express my great satisfaction for the rapid developments in carrying out our strategic projects, particularly the Clean Fuels Project (CFP) whose completion rate reached up to 94% at the end of the Fiscal Year. However, we believe that this project will start commissioning in the next fiscal year and will mark the entrance of Kuwait oil industry into a new promising era despite facing several challenges.

During this year, KNPC was granted a multi-sourced loan amounting to KD 1.9 billion for financing the CFP from commercial banks and Export Credit Agencies (ECA's) representing the second tranche of financing the project in USD. This is the first deal of its kind being secured by the company to obtain an international financing and it is also the largest ECA-backed deal raised in Kuwait to date.

What is noteworthy is the increase in the oil prices in the international markets which was a consequence of the agreement between the petroleum exporting countries, OPEC and non-OPEC, the thing which helped escape the sharp drop from which these countries have suffered for the last three years. Evidently, this proves the soundness of the trends of Kuwait Petroleum Corporation (KPC) as well as KNPC in moving forward in implementing their strategic projects whose objectives are to upgrade their downstream and gas processing capacities quantitatively and qualitatively.

KNPC sales amounted to KD 7.198 billion, including the sales of Kuwait Aviation Fueling Company (KAFCO) whose accounts have been consolidated, with KNPC after rejoining the company.

Both Mina Abdullah Refinery (MAB) and Mina Al-Ahmadi Refinery (MAA) achieved operational rates hitting 90.6% of their limits and this was because of the scheduled shutdowns for periodic maintenance. This was clearly due to the effective planning and the strict implementation of safety systems. The feedstock for both Refineries was 667 MBPD, lower than the overall feedstock during the previous year which was 821.3 MBPD. The main reason for this drop was due to closing up Al-Shuaiba Refinery at the end of the previous year.

One of the milestones during this year was inaugurating the LPG North Tanks Projects at MAA resulting in upgrading the storage and export of the additional gas production anticipated from Kuwait Oil Company (KOC) and Kuwait Gulf Oil Company (KGOC) in addition to inaugurating parts of the greenfield and updating the brownfield for sulfur handling so as to increase their production capacity and loading rate. The first shipment of sulfur granules was exported from the new sulfur pier at MAA.

As part of its plan in boosting conversion capacity, the company successfully organized the Residue Hydro-Treatment conference for the first time in Kuwait. It was attended by a group of top specialists and CEOs of the leading oil companies worldwide. Upgrading the heavy oil treating capacity is undoubtedly a significant challenge which faces the downstream industry due to the growing environment strict requirements.

To prove the company's efforts in enhancing safety levels and environment protection, the project of Flare Gas Recovery Unit at MAB was actually commissioned so as to eliminate gas emissions and minimize the company's operations impact on the environment. This project falls under Clean Development Mechanism Projects of the UN.

KNPC applied this year the project of "Upgrading Health, Safety and Environment Culture" whose objective is to enhance this culture as part of the company's core business. This project includes training a number of employees so as to be pioneers in the practical and field implementation of HSE systems. I won't forget to refer to Al-Dibdibah Project which is meant to produce electricity out of the solar energy as part of the company's plan to source 15% of Kuwait's electricity by 2020 meeting the strategic plan towards a New Kuwait. KNPC conducted several surveys and carried out pilot projects about utilizing solar energy and locating the right places for installing solar panels, such as buildings roofs, parking lots and filling stations for generating power and supplying the utility grid. The company is planning to install solar modules in 45 locations among the Refineries buildings and the Head Office.

With regard to the Local Marketing, the company started building19 new filling stations in different parts of Kuwait, whereas the company has laid a comprehensive 5-year plan to build 100 new filling stations in different areas of Kuwait to meet the growing demand for fuel, accompanied by building new towns, such as Jaber Al-Ahmed and Sabah Al-Ahmed.

Among the key issues, the company is keen to create more job opportunities for the Kuwaiti nationals, particularly the fresh vocational and scientific graduates when 540 applicants were appointed out of which 346 are Kuwaitis during this year. All the newly appointed employees follow advanced and continuous training programs so that they become more qualified and can administer the oil sector in the future. This year some KNPC employees were delegated to Kuwait Integrated Petroleum Industries Co. (KIPIC) contributing to the success thereof since it assumes executing large projects for the Kuwaiti oil sector.

I am so proud that KNPC was awarded several international prizes in health and safety, such as "MERIT" of the British Safety Council and Occupational Health and Safety Award was granted by the Royal Society for Prevention of Accidents (RoSPA) reflecting the top priority at KNPC to to keep an outstanding record in maintaining the least number of accidents and in minimizing the operations footprint on the environment.

Never should we forget the important role which the company plays in preserving its social responsibility to promote all segments of Kuwaiti society. Therefore, KNPC continues its efforts in supporting the public benefits organizations, special needs care providers, engineers' graduation projects, students' technical training programs as well as organizing programs and visits to schools to promote the correct safety practices at school, home and en route.

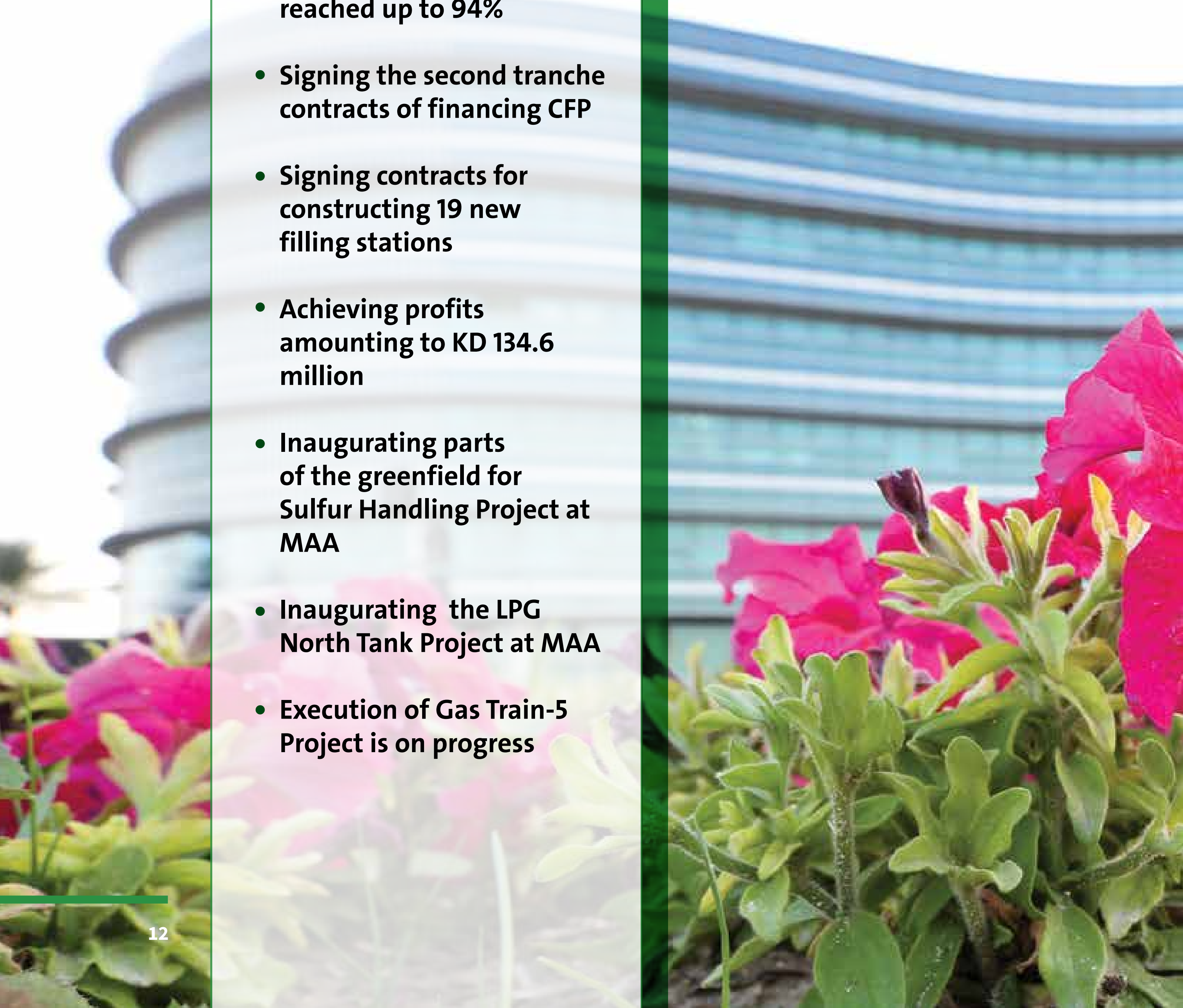
In conclusion, I have to point out that what the company reaps is just the result of our employees' sincere efforts at their various positions and locations. On behalf of the Board of Directors and the Top Management, we express to them our deepest appreciation and gratitude. However, with great optimism, we look forward to having even better future for our company, country and next generations.

Mohammad Ghazi Al-Mutairi

Chief Executive Officer

Remarkable Achievements during 2017/2018

- CFP's completion rate reached up to 94%
- Signing the second tranche contracts of financing CFP
- Signing contracts for constructing 19 new filling stations
- Achieving profits amounting to KD 134.6 million
- Inaugurating parts of the greenfield for Sulfur Handling Project at MAA
- Inaugurating the LPG North Tank Project at MAA
- Execution of Gas Train-5 Project is on progress



Main Indicators

	2017/2018	2016/2017	2015/2016
Financial Indicators	Million KD	Million KD	Million KD
Total products sales	7052.0	6571.5	6744.2
Total KAFCO sales	146.1	-	-
Local Marketing total sales*	529.0	446.0	370.3
Net profits	134.6	215.7	175.7
Total operation expenses	686.4	658.4	631.9
Capital expenditure	1098.0	2099.0	1354.03
Changes in total fixed assets	2012.6	2053.7	1312.2
Average Crude Oil Feedstock (x000 bpd)			
Shuaiba Refinery	-	191	167.8
Mina Abdullah Refinery	270.7	228.8	264.0
Mina Al-Ahmadi Refinery	396.3	401.5	425.3
Total	667.0	821.3	857.1
Sales			
Products exported to international markets (x000 ton)	25503.0	31302.5	33833.9
Fuel to local market (million liters)	6571.0	6115.0	6032.0
Fuel to MEW (Million liters)	7405.6	8159.0	8346.3
Bitumen (x000 metric ton)	147.6	113.0	94.2
Manpower			
Manpower at the end of Fiscal Year**	6209	6352	6344

* Sales of petroleum products to the local market include sales on behalf of KPC and KNPC sales.
** Including the manpower totaling 57 KAFCO employees.

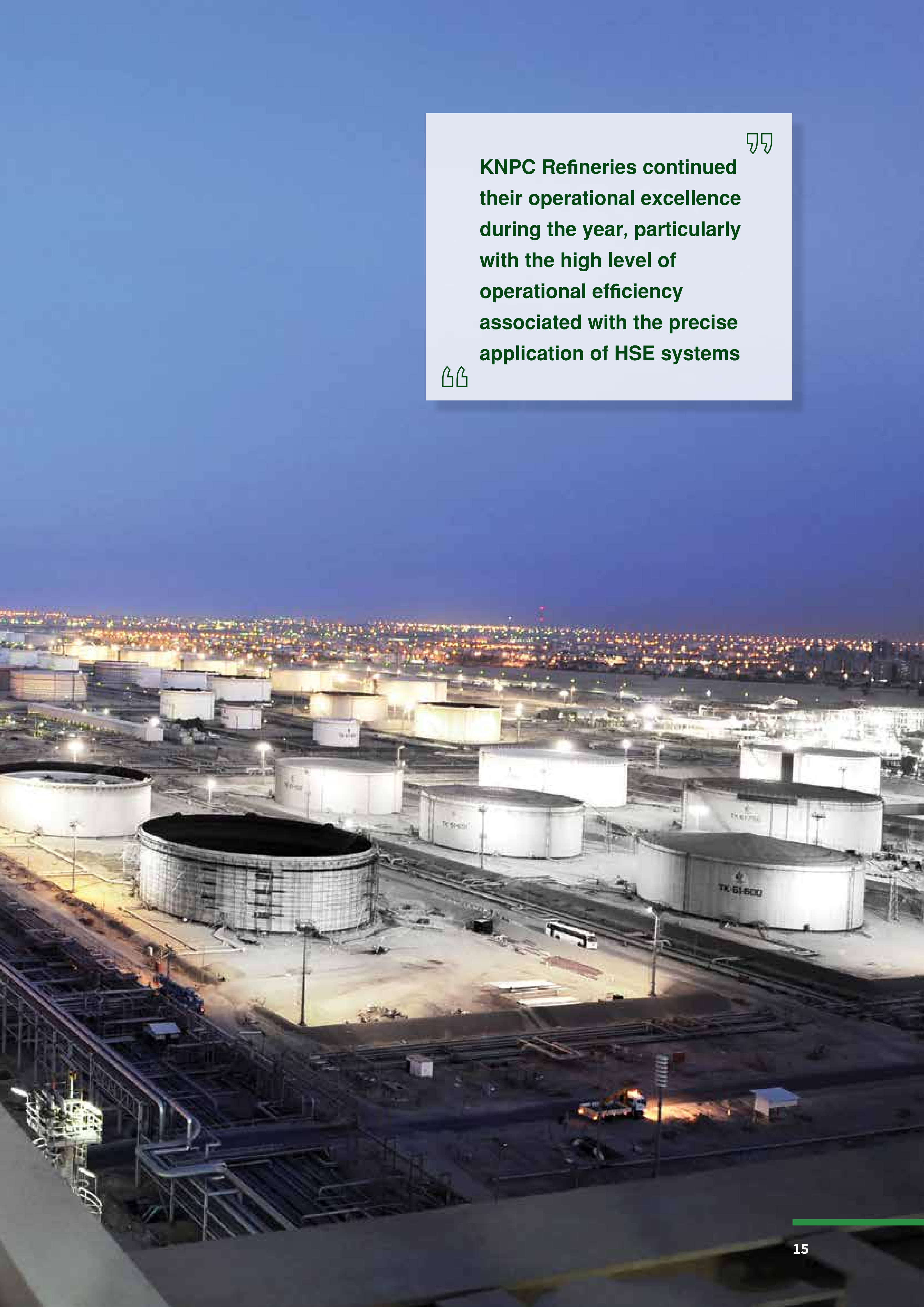
Chapter One

Oil Refining & Gas Liquefaction

Both Refineries (MAB and MAA) maintained high performance rates closer to as planned during the fiscal year 2017/2018. The feedstock for both Refineries was 667 MBPD which is almost similar to the average being 666.9 MBPD.

The refining average decreased compared to the previous years due to closing up Al-Shuaiba Refinery as of March 31, 2017 when the refined crude oil totalled 243 Million barrels in FY 2017/2018, whereas it reached 299.8 Million barrels in 2016/2017.

KNPC Refineries continued their operational excellence during the year, particularly with the high level of operational efficiency associated with the precise application of HSE systems



Crude Downstream Unit (CDU)

KNPC Refineries continued their operational excellence during the year, particularly with the high level of operational efficiency associated with the precise application of HSE systems and the laid plans. This reflects the employees keenness on playing a vital role in Kuwait's economy through achieving the goals set for both Refineries and demonstrating high levels of performance accompanied by implementing maintenance programs effectively.

A summary of the performance of each Refinery during the fiscal year 2017/2018, is provided hereunder:

MAA Refinery Departments demonstrated an outstanding performance during the FY

Mina Al-Ahmadi Refinery (MAA)

During the fiscal year 2017/2018, all crude oil refined output at MAA edged up to 144.6 million barrels, compared to 146.5 million barrels during the previous year, averaging daily 396.3 MBPD compared to 401.5 MBPD during the previous year.

Total products exported from MAA amounted to 9,103.7 thousand metric tons, in addition to 556.8 thousand metric tons of sulfur.

MAA Outstanding Achievements

During the fiscal year 2017/2018, Departments working at MAA demonstrated an outstanding performance resulting in prominent achievements, such as:

- Scheduled shutdown for three units were carried out successfully. They are Refinery Modernization Project (RMP), Further Upgrading Project (FUP), and Crude Distillation Unit (CDU-3). They were shut down for regular turnaround maintenance which were carried out not only safely and in full, but also ahead of schedule, including works related to the CFP.

- Carrying out the CFP units to FUP units ties-in with CDU-3, New Gas Oil Desulfurization Unit (NGOD) and Merox Unit. The scheduled shutdown of all these units was effected at one time for the first time, unlike the past practice when each unit was shut down separately. Consequently, about US$ 17.7 million was saved due to reduction in the production of middle distillates surplus and reduction in the interruption of exporting gas oil with 500 ppm content. Furthermore, the domestic demand for gasoline, aircraft kerosene, gas oil and fuel oil was met because the other units maintained operation.

- Exercises on emergency shutdown were successfully done in critical areas, such as Flare Gas Recovery Unit, LPG Receiver, FUP units, RMP units without recording any failures, malfunction, gas burning or shutting down any other operating units.

- Nitrogen surplus of Area 9 was utilized, while import was suspended during shutting down the Acid Gases Recovery Project (AGRP).

- With local efforts, the main leakage in the steam manifold of 24 inches / 60 bar was controlled. This was done by manufacturing proper fixing clips and carried out with coordinated efforts between all Departments. Consequently, about $ 10.4 million was saved due to the full shutdown of gas plant and the Refinery.

• Major turnaround maintenance works at MAA and scheduled regular maintenance at MAB were completed. This included maintaining a large number of equipment in major units, such as CDU, Gasoline & Kerosene Desulfurization Unit, Atmospheric Residues Desulfurization (ARD) and Sulfur Recovery Unit at MAA, and Hydro Cracking Unit (HCU) and Delayed Coker Unit at MAB. Maintenance also included over a hundred linking operations to CFP.
We have to point out that a record was achieved upon reaching 95% of the annual proactive maintenance procedure for the equipment and safety valves during the fiscal year 2017/2018.

• Waste Water Discharge Management Team have treated the amounts of water resulting from the last regular maintenance works at MAA as efficiently as possible and as per the basic standards approved by Kuwait Environment Public Authority before discharging the same to the sea.

• For the first time in the history of KNPC, Gas Operations Department loaded two vessels with gases of propane and butane from North LPG Tanks and South Gas Storage Unit simultaneously. This step is a proof of the success of North LPG Tanks Project. The thing which minimizes the loss incurred due to the delay in loading the vessels owing to the availability of two state-of-the-art export piers and benefiting from the capacity available at the company.

Mina Abdullah Refinery (MAB)

During the fiscal year 2017/2018, the crude oil feedstock reached to MAB averaged 270.7 MBPD, which is equivalent to 98.8 MMB during the fiscal year. This average exceeds the average achieved during the past fiscal year when the feedstock averaged 228.8 MBPD, which is equivalent to 83.5 MMB per year. Total exported petroleum products amounted to approximately 8230.8 thousand metric tons from the Industrial Island, in addition to about 972.8 thousand metric tons of petroleum Coker. Furthermore, Kuwait Paraxylene Production Co. was also provided with approximately 2438.8 thousand metric tons of Naphtha.

MAB achieved high levels of crude oil refining operations

MAB Outstanding Achievements

- During the fiscal year 2017/2018, Departments working at MAB demonstrated an outstanding achievement in the crude oil refining operations in association with a remarkable success in carrying out basic regular maintenance within the time limits. MAB also succeeded in applying Key Performance Indicators (KPI) according to Solomon Associates (SA) benchmarks.

- Under the Refinery banner targeting customer satisfaction, MAB products were up to highest standards with minimal loss in refined products. The Refinery reputation became even much brighter world-wide since it was awarded international prizes, such as "MERIT" from the British Safety Council for 2017 for the fifteenth consecutive year (since 2002). MAB was also awarded the prize of "President" category from the British Royal Society for Prevention of Accidents (RoSPA) due to the efficient management of health and occupational safety and this came after it has been awarded it for the twelfth consecutive year. Moreover, MAB was awarded the bronze prize for 2017 by KNPC for the prominent performance in HSE.

- The Refinery applied successfully the Cost Optimization & Profit Improvement (COPI) program and it promoted the awareness of Refinery operations through issuing quarterly bulletins on the Refinery performance and productivity. It further applied training courses for the employees working in the two-year old "Center of Excellence", particularly training a number of newly-appointed engineers within the Structured On-The-Job Training (S-OJT).

- MAB merged the automatic control operations for CFP units into the production units thereat by using the internet in order to enable the Refinery employees to make decisions and issue appropriate instructions.

Productivity of Both Refineries

Net petroleum products in both Refineries in the fiscal year 2017/2018 totaled 32.9 million metric tons compared to 40.6 million metric tons in 2016/2017 showing a decrease because Al-Shuaiba Refinery closed down on March 31, 2017.

The following table shows the daily percentage of the petroleum products in both Refineries, compared to the previous year:

Product	Annual production 2017/2018		Annual production 2016/2017	
	X000 MT	%	X000 MT	%
Naphtha/Car Gasoline/ Reformat	7,314.6	21.7	8,544.3	20.5
Kerosene/ATK	6,435.5	19.1	7,847.1	18.9
Gas oil/Diesel	8,534.9	25.3	10,024.9	24.1
Fuel oil/Residue	7,813.8	23.1	11,362	27.3
Other products *	2,780.4	8.2	2,878.8	6.9
Total net products	32,879.2	97.4	40,657.7	97.7
Consumption/loss	8,81.6	2.6	937.3	2.3
Total	33,760.8	100.0	41,595.0	100.0

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

LPG

Feedstock of LPG plant in this FY totaled 1,662 MMSCFD compared to 1,686 MMSCFD in the previous FY. This average represents the actual amounts from the oil fields and KNPC Refineries. Propane and butane exports reached approximately 4,570.4 thousand metric tons in 2016/2017 compared to 4,483 thousand metric tons in the previous FY showing an increase by 1.95٪.

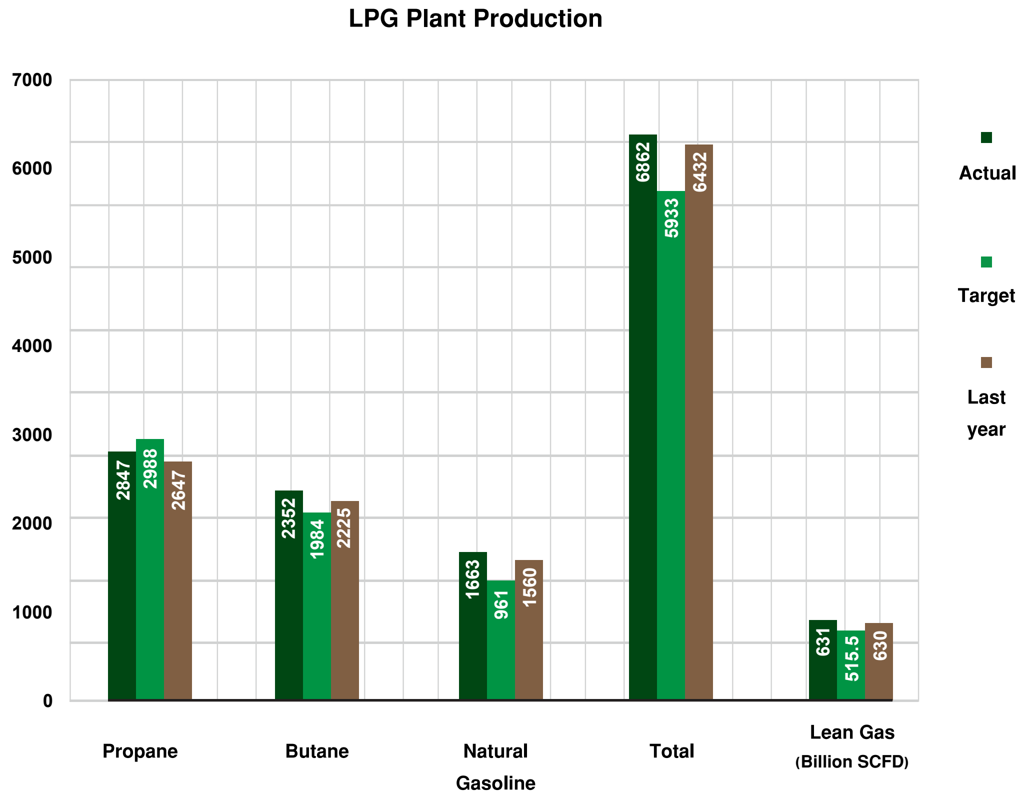
The following table shows a breakdown of the LPG plant production in 2017/2018 and 2016/2017:

Product	Annual production 2017/2018		Annual production 2016/2017	
	X000 MT	%	X000 MT	%
Propane	2,847	41.5	2,647	41.2
Butane	2,352	34.3	2,185	35.2
Natural Gasoline	1,663	24.2	1,560	23.6
Total Liquid Products	6,862	100	6,432	100
Lean Gas (billion SCFD)	631		630	

Under the Refinery banner targeting customer satisfaction, our products were up to the highest standards

Advanced technological methods enabled the staff to make smart decisions

The following table shows the FY 2017/2018 daily production of the petroleum products in both Refineries, compared to the previous year:



Kuwait Aviation Fueling Co. (KAFCO)

- Kuwait Aviation Fueling Co. (KAFCO) made net profits amounting to KD 20 million in FY 2017/2018 compared to KD 13.4 million in FY 2016/2017 showing a rise by 49.4٪.

- Total Actual Expenses, including consumption, in FY 2017/2018 went down to KD 10.9 million compared to KD 11.2 million in FY 2016/2017 showing a decrease by 3٪.

- KAFCO sales totaled 953.9 million liters in FY 2017/2018 compared to 754.8 million liters in FY 2016/2017 showing a rise by 26.4٪.

- Under the agreement entered with Amiri Diwan and Kuwait Airways according to which their aircraft in international airports and stations shall be supplied with fuel as agreed with international fuel supply companies as international providers. The fuel supplied in international stations totaled 4.84 million liters in FY 2017/2018.

- An agreement was reached with Ministry of Defense for repairing and operating external fuel stations and substations, tankers as well as the engines which supply the aircraft with fuel at the two air force bases of Ahmed Al-Jaber and Ali Al-Salem. The contract value is KD 3.2 million while its tenure is three years.

- The company developed its inner potentials for blending fuel of JP-8 type through using Filling Islands at the company's new depot for converting Jet fuel A1 type to JP-8 type in order to meet the growing demand in the local market for fuel of JP-8 type. The total amounts were 4.2 million liters through 109 transport operations.

- Seven new agreements were entered with seven airliners for supplying their aircraft with the fuel at Kuwait International Airport.
- A fuel-supply agreement was entered with KPC, according to which KPC benefited from a discount of 50٪ over the added increment compared to the previous year.
- Fuel sales to Kuwait Airways increased by 53٪ compared to the previous year.
- The number of aircraft supplied with fuel JET A and JP-8 at Kuwait International Airport in the FY 2017/2018 increased to 48,903 compared to 44,159 aircraft in the previous FY showing a 10.7٪ rise.

KAFCO net profits amounted to KD 20 million

Chapter Two

Local Marketing

Local Marketing sales during the fiscal year 2017/2018 exceeded in general the sales of FY 2016/2017. The data included herein details the sales in FY 2017/2018 compared to the scheduled plan and the actual sales in 2016/2017.

Constructing new modern designs filling stations highlights the company's vision and interests in the highest Health, Safety and Environment standards and meets the customers' requirements through rendering comprehensive and top-quality services

Filling Stations

The operating filling stations owned by KNPC totaled 45 in addition to another two mobile stations meant to serve the areas where no filling stations are available.

As far as the stations owned by Al-Oula Company (totaling 43 stations) and those owned by Al-Soor for Fuel Marketing (totaling 42 stations) are concerned, KNPC supervises their businesses, particularly to ensure their compliance with the safety and security standards as well as providing the customers with good quality services.

The only car-wash station, located in Bayan, is still operating. In pursuit of the company to upgrade and develop the services rendered to the customers as well as those stations operating in the developed countries, KNPC took a qualitative step towards furnishing the stations with mini markets, automotive washing and service units as well as spare parts shops in several stations owned by the company. Moreover, ATMs were installed in 10 of these stations.

The Department endeavors to make additional profits through implementing electronic advertising signboards at the filling stations. For the time being, the required formalities for obtaining the licenses from the municipalities are under process.

Local Marketing Projects

KNPC signed two contracts for constructing 19 new filling stations, most of which will be in new towns like Sabah Al-Ahmed and Al-Wafra. The value of the first contract is KD 14.45 million for building 9 filling stations, whereas the value of the second contract is KD 15.47 million for building another 10 filling stations.

The 19 new stations are expected to be inaugurated early 2019. Other contracts are going to be signed soon for constructing another 15 stations.

The above mentioned stations are part of a five-year plan for building 100 new stations in different parts of Kuwait in order to meet the urban extension and population growth.

The new stations will be constructed according to the modern designs which highlight the company's vision and concern in the best HSE standards and which help meet the customers' requirements through rendering comprehensive and distinct services, represented in making available minimarkets, spare parts shops, car-service, ...etc.

The new stations will use solar panels to generatge electricity. This reflects the company's commitment to minimize the operations' impact on the environment.

Building mini-markets aim at improving customer service

Al-Ahmadi Depot Project

This project aims to meet the growing local demand for the petroleum products until 2030. The project is the first phase of this strategy which will be carried out in several phases.

The project includes erecting depot for oil derivatives, loading arms and support services facilities. KD 75.7 million is budgeted for this project.

Al-Mitlaa Depot Project

Al-Mitlaa Depot Project is the second phase of the strategy aiming to meet the local market demand for different fuels. The project includes ensuring a strategic storage in the Northern Area which will witness executing a number of giant residential and strategic projects.

KNPC furnished the stations with services, such as, automotive washing and service center units

The new stations will be constructed according to the latest designs which highlight the company's vision and outstanding services

Local Marketing Sales (Million Liters)

Product	2017/2018	2016/2017	+/- compared with last year %
Gasoline Premium	2,627.7	1,663.3	58.7
Gasoline Super (95 Octane)	1,683.8	2,418.3	(30.4)
Gasoline Super (98 Octane)	50.8	68.6	(25.9)
Gasoline Euro 4	0.05	0.03	66.7
Total gasoline sales (cars)	4,362.3	4,150.0	5.4
Kerosene	158.0	141.0	12.0
Gas oil (local market)	2,038.1	1,823.0	11.8
Gas oil Euro 4	0.02	0.0	0.0
Total Fuel sales to local market	6,558.4	6,114.0	7.5
Gas oil to MEW	711.1	1,061.3	(33.0)
Heavy fuel oil to MEW	6,694.6	7,097.8	(5.7)
Total sales to MEW	7,405.7	8,159.1	(9.2)
Total fuel sales	13,964.0	14,273.1	(2.1)
Bitumen (Metric Ton)	147,593	112,877	30.8

Development of Local Marketing Sales during the Fiscal Years 2013/2014 - 2017/2018 (Million Liters)

Product	2017/18	2016/17	2015/16	2014/15	2013/14
Gasoline Prem. (91 Octane)	2,627.7	1,663.3	731.4	722.0	743.1
Gasoline Super (95 Octane)	1,683.8	2,418.3	3,356.6	3,233.2	3,021.7
Gasoline Super (98 Octane)	50.8	68.6	97.1	94.3	85.1
Gasoline Euro 4	0.05	0.03	0.1	0.1	0.1
Total gasoline sales (cars)	4,362.3	4,150.0	4,185.2	4,049.5	3,850
Kerosene	158.0	141.0	85.1	87.8	85.5
Gas oil (local market)	2,038.1	1,823.0	1,761.9	1,662.6	1,610.7
Gas oil Euro 4	0.02	0.0	0.0	0.0	0
Total Fuel sales to local market	6,558.4	6,114.0	6,032.0	5,800.0	5,546.3
Gas oil to MEW	711.1	1,061.3	1.189.3	1,836.7	1,670.7
Heavy fuel oil to MEW	6,694.6	7,097.8	7.157	5,710.1	7,099.8
Total sales to MEW	7,405.7	8,159.1	8,346.3	7,546.8	8,770.6
Total fuel sales	13,964.0	14,273.1	14,378.5	13,346.8	14,316.8
Bitumen (Metric Ton)	147,593	112,877	95,359	102,149	92,796

Chapter Three

Capital Projects

KNPC is carrying out several mega projects of which the most important is the Clean Fuels Project (CFP) whose aim is to upgrade both Refineries and extend their productive capacities.

These projects are a basic part of the company’s goals to update and develop potentials, improve products and enhance its capabilities towards fighting pollution and minimizing environmental impact.

Some of these projects were executed during this fiscal year, while some others are still under construction.

28

> **CFP is one of the most significant and giant projects in the history of the Kuwaiti oil sector. This project is a quantum leap by which the State of Kuwait enters a new era side by side with the leading downstream industrial countries worldwide**

29

Completed Projects

Erecting New LPG North Tanks in MAA

The strategic importance of the LPG New North Tanks in MAA lies in the need for ensuring the capability of storing and exporting the anticipated additional gas products as per KPC strategic plans prescribing the rise in producing gas in KOC and KGOC, particularly when completing Gas Train-4 Project and going ahead with Gas Train-5 Projec. GT-4 was inaugurated in MAA in December 2017. The Project comprises erecting10 tanks each with 72,000 cubic meters capacity, 5 of which were allocated for butane and another 5 for propane. The project value was KD 215 million.

Construction of New Sulfur Handling Facilities and Revamping the Existing Facilities in MAA

The project aims to upgrade the handling capacity of sulfur amounts projected to be produced from the present and future units by constructing Greenfield and Brownfield facilities for handling sulfur in MAA in order to upgrade its capacity and loading rate so as to be in line with the capacity of large vessels upon exporting. Added to that is the works pertinent to HSE as per the requirements of EPA.

This project was commissioned and the first shipment of sulfur granules was exported from the New Sulfur Pier at MAA on November 11, 2017.

Flare Gas Recovery Unit at MAB

This project was commissioned in April 2018 with a total value of KD 21.63 million.

This project achieves two basic goals, the first of which is eliminating the gas emissions as well as minimizing the company's operations' impact on the environment, while the second is benefiting economically through recovering a huge amount of flare gas and consequently benefiting therefrom as an energy source instead of burning thereof. This project was registered as one of the Clean Development Mechanism (CDM) projects of the UN.

Gas Train-5 Project contributes to meet KPC Strategic Plans requirements

Projects under Construction

Clean Fuels Project

KNPC is executing the CFP, which is one of the most significant and giant projects in the history of the Kuwaiti oil sector. Moreover, it constitutes a quantum leap which helps Kuwait enter a new era ranking it among the downstream industry leaders worldwide. This project will enhance the marketing share of Kuwait petroleum products in the international markets and will create an added value to the Kuwaiti oil.

The Project objective is to upgrade the total capacity of MAA to 346,000 barrels per day, and MAB to 454,000 barrels per day. The combined capacity of both Refineries will be 800,000 barrels per day. They will be linked together to become an integral downstream complex whose flexibility aspect provides KNPC with the ability to meet the ever-changing demand by the international and local markets for top quality petroleum products. Furthermore, CFP aims to improve the two Refineries' performance and raise the levels of operational reliability and safety, with optimal utilization of energy.

The company will be capable of producing environment-friendly petroleum materials complying with the strictest conditions applied nowadays in the European and American countries, such as Euro-4 and Euro-5. CFP's completion rate reached up to 94% as of March 30, 2018.

Financing CFP

KNPC followed a new approach in financing its strategic projects like the CFP where it undertook to cover directly 30% of the project value, whereas the remaining 70% shall be funded by local and global banks. Finance has been split in two tranches, the first of which is local while the second is international. The value of the first tranche loans was KD 1.2 billion and to be extended by local banks. The value of the second was US$ 6.245 billion. The contracts were signed in May 2017 with global banks and Export Credit Agencies (ECA's) from Japan, South Korea, Italy, England, Holland, France and Spain.

Executing Gas Train-5 Project

The scope of project is executing a 5th Gas Train for producing LPG at MAA for accommodating and treating the surplus production anticipated of gas and condensates from the Refineries and Kuwait oil fields. Production capacity of the Gas Train-5 will be 805 MMSCFD of gas and 106 MBPD of condensates. The project also includes constructing a new combined unit for

CFP aims at upgrading the company's Refineries so as to become an integral downstream complex

treating fuel gas for both gas trains (4 & 5) at the Refinery. Upon completing the project, the total KNPC gas processing capacity will be 3.263 billion SCFD.
The project value is KD 428 million and the actual achievement rate reached 80.4%.
The project is scheduled to be completed in November 2019.

New Unit for Acid Gases Recovery Project (AGRP)

Constructing a new unit for treating acid gases (AGRP) as well as revamping the existing unit at MAA for treating all acid gases due to be produced by KOC. The objective is to reduce the ratio of gas flaring and converting hydrogen sulfide so as to be in line with KPC strategy aiming to reduce the ratio to be less than 1% as dictated by EPA.
The project's actual achievement rate reached up to approx. 93.5% and it is scheduled to be completed in August 2023.

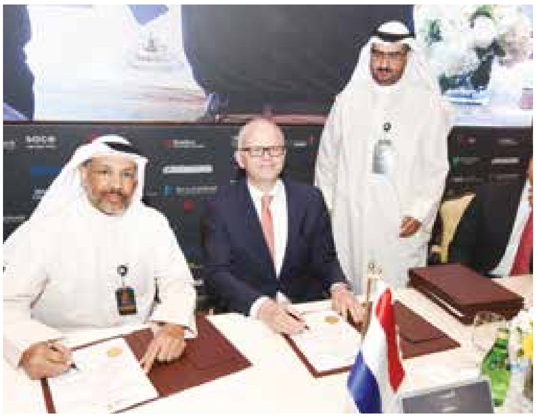
Building New Sulfur Handling Facilities and Revamping the Existing ones

The project aims to construct new facilities for handling sulfur at MAA and to develop the existing units' efficiency and upgrade their capacity for handling the sulfur amounts anticipated to be produced. Moreover, the project aims to improve and develop the existing sulfur handling equipment to upgrade the capacity thereof in order to enhance the loading rate so that big export vessels can be used. Another objective is to carry out works pertaining to HSE as per the EPA standards. The project also includes erecting LPG Depot and constructing units for converting sulfur to granules.
The new facilities for handling sulfur and the sulfur exporting pier were inaugurated. The first shipment of sulfur granules was exported from the new sulfur pier of MAA on November 11, 2017. In the meantime, development works on existing facilities are still on progress.
The project value is KD 210 million and the actual achievement rate reached 94.1% till the end of the instant FY. The project is scheduled to be completed in January 2020.

Liquid Sulfur Treating Facilities Project

KNPC is executing this project as per KPC directives and in agreement with KOC.
This project aims to construct Liquid Sulfur Treating Facilities at MAA with a capacity totaling 1000 tons of the liquid sulfur produced by KOC daily. The project also includes delivery and constructing integrated facilities for receiving and storing the liquid sulfur, tanks and a special pit for sulfur storage as well as discharging equipment, transport pumps, weighbridges, other required works, such as piping, civil and electrical works, precision instruments and control systems in addition to constructing a sulfur granulation unit.
The project budget is KD 30 million and the actual achievement rate reached 40.5% while the project is scheduled to be completed in December 2019.

Building new sulfur handling facilities and revamping the existing ones



Expanding & Modernizing MAA Depot

The project comes as implementation of the recommendations on the future expectations regarding the strategic demand for the oil products in the local market till 2030 and this requirement will be met in different stages. This project, being the first phase of the strategy, includes erecting depot for petroleum derivatives, loading arms and support services facilities.

The project value is KD 75.7 million and the actual achievement rate reached 93.7٪ and the project is scheduled to be inaugurated in September 2018.

Depot for Petroleum Products at AL-Mitlaa

The project is the second phase whose objective is to meet the increments in future demand for the petroleum products in the local market.

Under KPC directives, a new feasibility study for this project will be conducted. The demand for the petroleum products, the environment impact and meeting all other requirements for the project will be taken into consideration.

The project includes erecting depot for the petroleum products at Al-Mitlaa in addition to extending transport pipelines from the Refineries.

KNPC followed a new approach in financing the Clean Fuels Project for the first time of itws kind

Upgrading Delayed Coker Unit No 20 at MAB

This project aims to maintain the current operational rate of the Delayed Coker Unit (DCU) by eliminating the constraints which encounter operating the unit in a capacity of 40 MBPD for each production line. This includes the application of certain industrial criteria pertaining to safety and operations.

The project value is KD 28.7 million and it is scheduled to be completed in March 2020.

Chapter Four

Health, Safety and Environment (HSE)

The issues of Health, Safety and Environment are a top business priority within KNPC, and are as important as the company's core operations viz crude downstream and gas process.

The company spares no effort to ensure constant compliance with the safe operations which eliminates all hazards that may cause any harm to the employees, contractors, neighboring residential areas or to the environment in general.

Blood donation campaigns continued at various sites of KNPC which ranked 2nd distinguished blood donor in Kuwait

Assessing Health and Safety Culture

As far as health and safety culture is concerned, KNPC organizes extensive training programs for all employees, awareness campaigns all year long and sessions during which previous incidents which took place in the oil facilities in different parts of the world are analyzed so as the lessons are learned and consequently similar incidents can be avoided in the company's facilities. The company established centers for training the employees on health, safety and environment in both Refineries based on the company's keenness to maintain high levels of security and safety.

KNPC completed recently a year-long study on "Assessing Health and Safety Culture" according to which a plan was laid down to put the recommendations into effect. In this regard, the company trained 800 employees to improve their supervisory skills in health, safety, environment and culture. Afterwards, 300 people from KNPC and contractors thereof were nominated as "Change Agents" who will also follow a structured training to become "Trainers" who can lead and train other employees on the basic aspects of health, safety and environment in order to achieve excellence in performance and turn the same to be a daily practice.

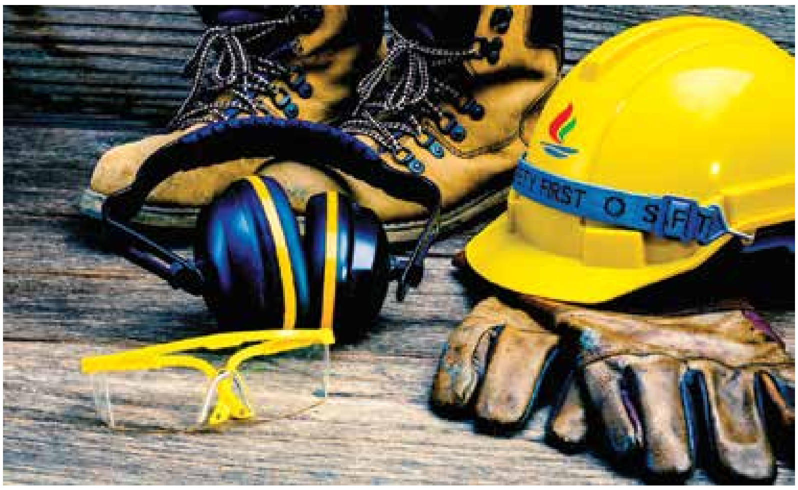
The company organized the 11th HSE Excellent Performance award in which the company's Departments, employees, their families as well as several entities, such as government organizations, NGOs, hospitals, Kuwait University, schools and others participated. This tournament is growing steadily since participants reflect increasing awareness in the importance of everybody's involvement in upgrading the health, safety and environment levels.

Integrated Management System (IMS) of KNPC was first audited by TUV Nord and the findings proved its compliance with the requirements of ISO 9001, ISO 14001 – OHSAS 18001 and their legal requirements.

KNPC achieved the highest ratio among K-companies in an auditing questionnaire designed by KPC regarding finding solutions to the significant HSE Gaps – Mitigation Plan, which reached up to 97.2%.

The company developed 12 HSE Golden Rules to control the operational basics, provide healthy work environment and personal safety. Every golden rule aims at monitoring, controlling and preventing accidents resulting from hazardous works due to lack of knowledge in the mechanisms of applying scientific and practical behaviors required for avoiding unfortunate accidents human-wise or cost-wise.

The company developed 12 golden rules to control the operational basics, provide healthy work environment and personal safety



KNPC Fire Centers were enhanced and supported with modern and advanced equipment and vehicles

Among other activities was KNPC participation in Kuwait 2nd HSE Conference. The company's CEO, who presided over the Conference first session, stated that KNPC is looking forward to improve its HSE performance in various facilities despite the competitive work environment and extended environmental and legal requirements. The company also took part in "HSE Sixth International Conference 2018" which was organized by Gulf Downstream Association (GDA).

HEALTH

- KNPC organized an Occupational Health Day in the Fahaheel and Al-Ahmadi Industrial Areas. Free tests and primary medical services were provided. The company organized this Day for the third consecutive year due to the overwhelming workers' attendance in these two areas (over 1,200) in order to benefit from the medical services provided therein.

- KNPC organized hygienic campaign for promoting hygienic awareness and complete understanding of general health culture, such as hepatitis campaign, kidney disease, headache, Health & Beauty Week and Diabetes International Day. Blood donation campaigns were launched in various sites of the company which ranked 2nd best blood donor in Kuwait.

- The Medical Division of HSE Department participated in the 5th Gulf Occupational Health & Safety Conference which was held in Kuwait under the banner "Care & Productivity." Among the participants were International Health Organization (IHO), International Work Organization (IWO) and GCC Health Council. The conference aimed to promote doctors and nurses awareness about how to treat and deal with people working in the industrial areas.

SAFETY

- Fire, Emergency and Operations Support Center in Al-Ahmadi City was opened and it aims at enhancing K-companies' capabilities in fighting accidents and fires. The Center has an advanced unit for monitoring and controlling catastrophes and managing crisis, through which accidents could be monitored live through an advanced communication network which helps in immediate decision making and boosts the ability to control accidents quickly.

- KNPC was awarded prestigious safety prizes from the British Royal Society for Prevention of Accidents (RoSPA) in addition to the international safety award "MERIT" from the British Safety Council.

- The company celebrated with Fluor – Daewoo – Hyundai Coalition upon achieving

The Flare Gas Recovery Project helps minimize harmful gases emitting in the air

20 million working hours without lost time incident (LTI) during the execution of CFP.

• Security and Fire Department added another 22 fire equipment to the company's fire fleet to enhance fire-fighting operations so as to boost and support the company's fire centers.

• HSE Department launched induction campaigns and sessions to introduce the employees to several safety issues, such as dangers of welding, penal system when health, safety and environment are violated, industrial health activities, testing hydrostatic pressure, radiation safety, ...etc.

• HSE Executive Committee circulated monthly messages to promote the awareness on operational risks, such as operations risks analysis, odor management system, heat stress, management of contractors' databases, investigating accidents, car seatbelt, using mobile phone when driving, following safety procedure when using water hoses, procedure of approving and inspecting chemical materials, Change Management and Emergency Response Plan (ERP).

• Security and Fire Department organized induction campaigns to introduce the employees to several safety issues, such as spring camps safety and fires, on and off-job safety, traffic safety awareness.

• KNPC took part in "Shamel 4" drill organized by Fire Service Directorate and another 13 government institutions whose aim was to know how to deal with major accidents and emergency cases in different parts of Kuwait. "Shamel 4" drill simulated multiple-accidents scenarios which comprised explosions, fires, oil spill and spreading of hazardous materials in an oil facility.

• HSE Department organized a workshop about accidents which may occur in oil installations all over the world so as to realize the actual reasons conducive to such accidents, trace causes of deficiencies, learn lessons therefrom and take precautions in the future.

ENVIRONMENT

As far as environment is concerned, KNPC made several achievements of which the most important were:

New Unit for Acid Gases Recovery Project and Revamipg the Existing Unit

This strategic project is being carried out for constructing a new AGRP Unit and revamping the existing Unit at MAA in order to treat all acid gases anticipated to be produced by KOC. This project goes in line with KPC Strategy to reduce gas flaring to below 1% and consequently reduce environment pollution. The value of this project is KD 250 million.

New Flare Gas Recovery Unit at MAB

This project is scheduled to be commissioned in April 2018, and the value thereof is KD 21.63 million.

The project aims at recovering a huge amount of gases sent to flare in order to be utilized as an energy resource which can be used in heating boilers and similar equipment. It also helps minimize harmful gases emitting in the air and it is registered as one the UN CDM projects.

2nd Phase of Filling Stations Vapor Recovery Project

This project comprises delivery, erecting and commissioning vapor recovery pumps during car filling at KNPC filling stations. The Project minimizes hydrocarbon emissions from the pumps, and consequently reduces exposure to volatile organic compounds. The recovered vapor is reused. This project is a continuation of the Vapor Recovery Project resulting from loading operations at Al-Ahmadi and Subhan Depots. The project is scheduled to be completed in June 2018.

Applying Renewable Energy (Solar Energy) Concept at KNPC Facilities

Meeting the vision of His Highness the Amir of the State of Kuwait, to source 15% of Kuwait's electricity from renewable sources by 2030, and pursuant to the directives of KPC to achieve this goal in the oil sector by 2020, KNPC made several studies and initiatives, such as:

- Building up Al-Dibdibah Solar Project for generating 1,500 MW. Led by a joint team from KPC and K-companies, KNPC supervised a feasibility study for constructing a solar energy station to generate 1,500 MW inside the Renewable Energy Al-Shigaya Complex, 100 km to the West of Kuwait. A tender for this project will be floated soon.

Several environmental campaigns were organized over the year, such as beach clean-ups

• Furthermore, KNPC conducted a study about installing solar panels at Local Marketing's Depot and at the company's filling stations. Panels will be erected on the internal buildings' roofs of both Depots, parking lots, light poles as well as in the internal spaces. These panels are expected to generate 5 MW. The company is currently working on the approvals for executing of this project.

• In this regard, the project of installing solar panels at 10 filling stations set out in December 2017.

• KNPC adopted the concept of using the renewable solar energy in its projects for building 100 new filling stations in different parts of Kuwait as well as in the project of erecting petroleum products depot in Al-Mitlaa.

• According to the criteria of International Association of Research & Development Organization (IARDO), KNPC is the first to apply Global Sustainability Assessment System (GASA) for rating the existing buildings, not only in Kuwait, but also in the region. The Company's Head Office obtained the Gold Medal Award for Green Buildings.

• KNPC Commercial Department applied the "Green Purchases" initiative which is an actual application of purchase policy according to which environmental reflections are considered whenever the company orders materials or services which should be environment-friendly.

• MAB carried out "Greening MAB" campaign which was organized by Operations Department in collaboration with General Services Department and meant to promote the environment culture and awareness in the employees.

• MAB Operations Department organized a campaign for cleaning the Refinery beach where more than a 100 employees of the Refinery and the CFP took part therein. Moreover, the Commercial Department launched a volunteer campaign for cleaning Abu Al-Hussania Beach, whereas the two Departments of Research and Development as well as Management Support launched another campaign for cleaning Al-Mangaf Beach.

Meeting the vision of His Highness the Amir of the State of Kuwait, KNPC endevors to source energy from its renewable sources

Kuwait Aviation Fueling Company

• Security and Fire Department at KNPC took over the fire services of KAFCO. The Fire Team was provided with additional fire fighters and three fire equipment.

• HSE Division delivered 150 lectures totaling 3,000 training sessions, an average of 11.5 hours attended by each employee.

• KNPC was granted the Gold Medal Award by RoSPA for Major Occupational Health & Safety 2017.

• An agreement was entered between KAFCO and KNPC, according to which fire fighting service shall be provided.

• A number of induction campaigns were organized at the company, such as anti-smoking, maintaining back safety, using fire extinguishers, reporting near miss incidents and getting vaccinated against winter diseases.

• Off-job weekly Sports Day were also organized, the thing which reflects caring for the employees' health and highlights the importance of sports and hygiene preservation.

When playing its role and accomplishing its mission, KNPC relies heavily on its employee' efforts and initiatives

Chapter Five

Achievements & Performance Improvement Initiatives

Performance improvement in different KNPC facilities, particularly the operational ones, is a basic goal in the company's management plans, as part of its endeavor to promote competitiveness and minimize cost, time-waste and emergency shutdowns and to implement latest technological applications. This is only to reach the "Smart Refinery." Therefore, KNPC supports every initiative aiming to develop efficiency.

In November 2017, KNPC accumulated an additional achievement upon obtaining the Best Employer of IT Projects prize in the field of energy and industry, awarded by Arabian Computer News (ACN)

Leading Initiatives Implemented by KNPC

• KNPC launched a program to achieve Excellence in Plant Reliability, Integrity and Maintenance (PRIME) whose objective is to upgrade units' operational rates and maintenance operations' efficiency through reconsidering and improving them. This comprises restructuring KPIs to ensure achieving the required level of reliability and sustainability. Furthermore, the program includes updating the technical studies being implemented by the different Refinery Departments, and learning from the international best practices in the oil and gas industry.

• Departments of IT as well as MAB Refinery Operations applied a project called "Digital Follow-up of Process Units Equipment Readings" towards achieving the Smart Refinery Project. The project includes recording the Refinery units equipment readings digitally and convert them to concrete data and analytical drawings to monitor the Refinery's performance. This application doesn't help only in assuming preventive maintenance operations of the Refineries' units through having a clear understanding of the process and validity of all equipment so that maintenance cost will be reduced, but also in excluding over a million printed pieces of paper so that environment will be preserved green. The application covers 26 units and is used by over 800 users whereas around 1.8 million readings are entered through the daily operators visits.

• The road map of KNPC Research & Technology Department was updated based on the scientific research and innovations in the field of emerging technology. It was utilized to develop the master road map of KPC downstream and petrochemical companies.

• Cost Optimization & Profit Improvement (COPI) Committee continued its work in FY 2017-2018. A large number of COPI programs and initiatives were spotted, followed up and sustained and they were given top priority. The Committee's activities lead to several achievements and bringing about considerable savings and returns amounting to approx. US$ 196.7 million. The Committee aims to optimize cost and improve profit in the light of global decrease in crude downstream returns and petroleum products' prices as well as the significant challenges associated with the low financial returns.

An induction lecture on the electronic crimes and the consequential impacts

- "Creativity Team" was developed with the strategy to enhance creativity within KNPC and to introduce new ideas in the market, benefit from the international technological advancement and trends and also to consolidate the current successful practices. Creativity strategy is important due to the introduction of ideas towards enabling KNPC to discover more opportunities in the market, and save a competitive characteristic in the oil and gas industry locally and globally.

- KNPC Commercial Department has made a saving amounted to KD 11.43 million owing to negotiating offers for providing materials, works, contracting services and effecting some amendments to certain agreements. The Department has also made another KD 10.39 million saving owing to unifying the specifications of the single-source materials, the best use of the available stock in meeting different Departments requirements and studying, rejecting or lowering the number of materials to be added to the stock.

- Commercial Department has developed a new policy called "Green Purchases" whereas KNPC purchases and services should be environment-friendly.

- Commercial Department organized a strategic workshop aiming at achieving a quantum leap in its productivity and conducted an analysis for its instant situation and highlighting change steps required for achieving its goals.

- In collaboration with International Solomon Associates, Corporate Planning Department organized a training session for the company's employees in August 2017 on the calculating mechanism of KPI, production increase, operational performance upgrading in the company's Refineries as well as the solutions required for performance improvement.

- Due to the successful application of the system of Balancing and Daily Control of Oil and Supply Movements (Advisor), a shortage of actual quantities was detected, and the registered quantities of the products forwarded from MAA to Local Marketing Depots were corrected. Consequently, the company was compensated with US$ 2.01 million for the shortage in quantities.

- Local Marketing Department increased the capacity of petroleum depots so that they can receive bigger quantities keeping up with the growing demand in the local market. The expansion in gasoil reception was 40% (increased from 6 million barrels to 8.5 million barrels). This was accomplished by adjusting the receiving pipelines network without any financial cost endured by KNPC.

Issuing the (KNPC TECH) Magazine, the first of its kind within the oil sector

• As part of its plan to provide every area in Kuwait with fuel supply, the company operated a new mobile temporary fuel station in Sabah Al-Ahmed Town, so that the number of the mobile fuel stations in this town grew to two.

• KNPC assisted Kuwait Integrated Petroleum Industries Co. (KIPIC) in developing, floating, receiving and studying tenders as well as recommending the successful tenderer after negotiating the same with the contractors. As a result, US$ 53.15 million (i.e. 23.5% out of the bids values) were saved.

• Among its continuous induction campaigns on cyber crimes, particularly with the growing usage of information network and social media means as a local and global communication means, Human Resources Department organized a lecture titled "Cyber Crimes and Consequential Impacts" introduced by Assistant Manager of Electronic Crimes Fighting Department at General Administration of Criminal Investigation.

• Developing a study for upgrading production capacity of bitumen and crude oil units so as to be capable of meeting future local market demand therefor. The feasibility study was completed, and currently initial engineering designs study of the project is on progress.

• Corporate Communication Department issued the English language magazine "KNPC TECH," the first of its kind in the oil sector. Company's employees provide the Magazine with the technical studies and seminars in oil and downstream industry.

• KNPC signed a contract with Trolley in October 2017 for furnishing and running 5 supermarkets at filling stations. KNPC also signed an agreement with NBK Investment for installing ATMs at 10 filling stations.

Prizes Awarded to KNPC

• KNPC made a considerable achievement upon obtaining three international quality assurance certificates, namely Quality Management System (ISO 9001-2015), Environment Management System (ISO 14001-2015) and Occupational Health & Safety System (OHSAS 18001-2007).

• In November 2017, KNPC accumulated an additional occupational achievement upon obtaining the "Employer of the Year" in IT Projects in the fields of energy and industry, awarded by Arabian Computer News (ACN) Magazine.

• In a ceremony held in Dubai in March 2018, KNPC collected the prize of IJ Global Awards

KNPC made a considerable achievement upon obtaining three international quality assurance certificates

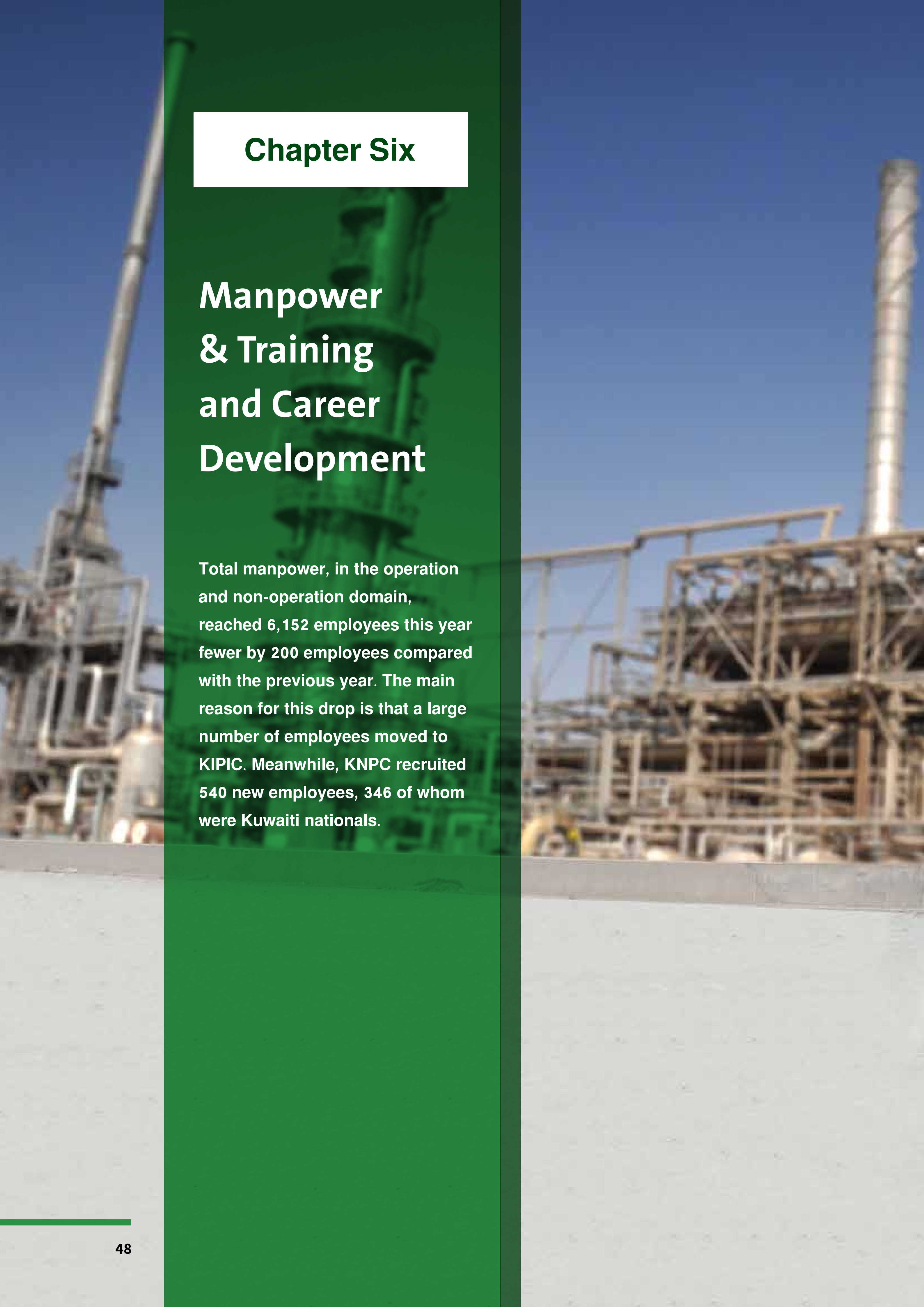
Magazine for the financing deal of CFP for downstream sector in the Middle East & North Africa (MENA) for 2017.

Prizes Awarded to KAFCO

- As part of HR Summit & Expo 2017 Event held in Dubai in November 2017, KAFCO ranked 1st in Excellence Prize for HR 2017 for the category of "Innovation in Training & Development." Meanwhile, it ranked 2nd for the category of "Innovation in Developing Leaders & Executives."
- As part of The Human Capital Annual Forum Event held in Dubai in May 2017, KAFCO ranked 2nd in Excellence Prize for HR 2017 in the Middle East & North Africa (MENA HR Excellence Award 2017) for the category of "Excellence in Talent Management & Development."
- KAFCO was awarded Gold Medal Prize by RoSPA for Health, Safety & Excellence (HSE 2017).

KNPC was awarded the prize of IJ Global Awards Magazine for the financing deal of CFP in the Middle East & North Africa

KAFCO ranked 1st in Excellence Prize for HR



Chapter Six

Manpower & Training and Career Development

Total manpower, in the operation and non-operation domain, reached 6,152 employees this year fewer by 200 employees compared with the previous year. The main reason for this drop is that a large number of employees moved to KIPIC. Meanwhile, KNPC recruited 540 new employees, 346 of whom were Kuwaiti nationals.

"KNPC laid down advanced training plans and programs to cope with the technical requirements at the Refineries, Management, Finance and others. Furthermore, it developed a special system through which every employee may pick and choose the training plan he/she believes suits their specialization"

Manpower

Kuwaiti manpower in the company totaled 5,359 employees representing 87.11٪ of the labor force in the company. However, this figure shows a decrease by 290 employees compared with the previous fiscal year.
The following tables provide a breakdown of employees in the company according to their nationalities and worksites, besides labor force growth from 2009/2010 to 2017/2018.

Breakdown of Employees Number and Percentages by Departments

Department	31/3/2017			31/3/2018		
	Employees Number	Kuwaiti Manpower		Employees Number	Kuwaiti Manpower	
		No.	%		No.	%
Head Office *	1009	937	92.86	979	919	93.87
Local Marketing	293	286	97.61	299	292	97.66
Health, Safety & Environment	188	95	50.53	182	95	52.20
Security & Fire	866	860	99.31	849	842	99.18
Shuaiba Refinery	724	622	85.91	0	0	0
Mina Abdullah Refinery	1230	1077	87.56	1596	1322	82.83
Mina Al-Ahmadi Refinery	2040	1770	86.76	2246	1888	84.06
Sub -Total	6350	5647	88.93	6151	5358	87.11
Prisoners of War (POW)	2	2	100	1	1	100
Sub -Total	2	2	100	1	1	100
Grand Total	6352	5649	88.93	6152	5359	87.11

* including Top Management, Legal Department, Corporate Planning, Corporate Communication, IT, Human Resources, Finance, General Services, Projects Management - 1, Projects Management - 2, Commercial Department, Training & Career Development, Management Support, Risk Management, Manufacturing Optimization Group (MOG), Clean Fuels Project (CFP).

KNPC Employees According to Nationality

Nationality	Number of Employees			Percentage of Total Manpower		Percentage of Increase (Decrease)
	31/3/2017	31/3/2018	Change	31/3/2017 %	31/3/2018 %	%
Kuwaitis	5649	5359	(290)	88.93	87.11	(5.13)
Other Arab Nationals	131	116	(15)	2.06	1.89	(11.45)
Sub -Total	5780	5475	(305)	90.99	89.00	(5.28)
Non-Arabs	572	677	(105)	9.01	11.00	18.36
Total	6352	6152	(200)	100	100	(3.15)

Implementing a group of training programs whose objective is to train and develop the employees and enhance their experience

Total Manpower Development at KNPC

2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
5447	5562	5880	5805	6644	6464	6344	6352	6152

Manpower and Training & Career Development at Kuwait Aviation Fueling Company

Department	1/4/2017			31/3/2018		
	No. of Employees	Kuwaiti Manpower		No. of Employees	Kuwaiti Manpower	
		No.	%		No.	%
Gen. Manager's Office	4	4	100	4	4	100
Finance, Admin., Services	19	17	89.47	20	18	90
Ops, Eng., Maintenance	33	33	100	33	33	100
Total	56	54	96.43	57	55	96.49

Training & Career Development

KNPC attaches a great importance to train and develop its employees so that they acquire the technical skills required to run the oil facilities efficiently. Accordingly, the company laid down advanced training plans and programs to cope with the technical requirements at the Refineries, management, finance and others. A special system was developed according to which every employee may choose the training plan he/she believes suits their specialization. Also, a special training system is tailored for the newly appointed engineers "Structured On-The-Job Training" (S-OJT) to benefit from the theoretical as well as practical trainings while they are at their worksites, the thing which provides them with a prominent field experience.

- 4,643 employees participated in 290 local development courses and seminars, workshops and lectures which concentrated on different issues pertaining to the job requirements of the employees. KNPC collaborated in these training courses and programs with local institutions headed by Petroleum Training Center (PTC) of KPC and international companies. In the meantime, there were 599 external courses in which 1,501 employees took part.

Implementing training programs tailored for engineers and senior controllers aiming at upgrading their occupational potentials

Building Competencies Program for security and firemen is in progress in Kuwait and abroad

• T & CD Department carried out a training program for senior engineers and controllers who were promoted during the last two years. The objective was to develop their potentials and upgrade their career and occupational levels. The program was carried out for three periods during FY 2017/2018 and from which 62 senior engineers/senior controllers of different Departments of KNPC benefited.

• In collaboration with "SSA & Company," KNPC carried out a training program called "Lean Six Sigma – Green Belt" which is an occupational technical program approved by the company due to its significance in simplifying and improving certain procedures being valid at the various KNPC Departments. Thirty out of fifty employees completed their projects successfully and were granted the green belt.

• KNPC organized "Basics in Operation" courses for CFP in order to train their staff on receiving and commissioning CFP units as soon as they are handed over thereto. 320 out of 900 employees were trained whereas the courses are still going on in the training centers.

• Phase Two of S-OJT was completed and included 30 technical / admin. jobs. The new employees will follow this phase.

• Public Institution for Social Security (PISS) held a ceremony in which KNPC ranked 1st in IT program for training and qualifying Kuwaiti new graduates. PISS carried out this program in collaboration with IBM for preparing the new graduates who are seeking employment.

• Human Resources Department has initiated certain procedure / operations to go in line with

Advanced training programs benefiting both female and male employees its 2040 strategy. "Aaly" is one of the systems used for approving employment scheme, automatic inter-Departmental transfer and the system of extracting nomination forms for promotion accompanied by the transfer between K-companies.

- Manufacturing Optimization Group organized a training session for describing the steps required for manufacturing new petroleum products in the company's Refineries.

- KNPC interviewed and distributed 185 new engineer graduates, males and females, to work for KPC and K-companies, of whom 85 engineers to work for KNPC.

- Security & Fire Department at KNPC trained 69 fire equipment operators in the USA on operating and driving the pumps. Furthermore, Training & Career Development Department organized a training program for KNPC firemen in the British Fire Service College in England during which 16 KNPC firemen were trained to work in the company's different worksites and they are nominated to get promoted to the rank of a fire officer.

- Building Competencies Program for security and firemen is on progress. Hence, Security & Fire Department organized the following training programs and courses:
  - The Emergency Response Plan Program for fighting fires at the oil installations (NAPT – OFERTM).
  - Driving and operating the pumps at KNPC fire centers by international training consultants.
  - Training on rescuing at KNPC fire centers through international training consultants.
  - An internal course for security personnel to qualify as professional trainers and providing them with accredited international certificates.
  - A course on securing the oil installations, entry points and admission regulations to the vital installations at Kuwait Petroleum Center.

- In collaboration with the Southern Korean (Daewon Advisory), Training & Career Development Department organized a training program tailored for developing the unified leadership competencies of the team leaders so as to create a positive spirit therein and develop leverage, productivity, loyalty, adaptation, flexibility as well as the one-team spirit at work. 137 team leaders participated in this intensive course.

- Training & Career Development Department organized a development program tailored for the newly promoted team leaders. Part 1 of this program is to introduce the systems and services rendered by KNPC different Departments, whereas Part 2 covers leadership development programs and is divided into three stages, namely self-development, team development and organization development. 46 team leaders attended this program.

- IT Department launched a campaign called (Secure User) whose aim is to promote the awareness of the employees in IT security and avoid the exposure to any breakthroughs which could be harmful to the company interests,

Educational and induction sessions included different aspects of the company's tasks and business

data and information confidentiality. This campaign will be valid for 12 months, i.e. from November 2017 till October 2018.

- KNPC continued organizing training courses for the newly appointed and under development employees according to an agreement entered with "Kuwait Injaz" Society as per which the second training course events called "My Route Towards Professionalism" were held. The course comprises a theoretical part as well as a practical training and helps trainees acquire more creativity and innovation skills required to achieve efficiency and excellence.

- Risk Management Department organized an induction session about the risk culture in the oil sector and it's attended by a number of KNPC employees and scores of Risk Management at the associated oil companies. The session comes as part of KPC initiative events "Corporate Risk Management Community" whose aim is to promote awareness culture in the oil sector employees about risk management. Moreover, the session included defining and classifying the potential hazards and citing examples on certain incidents worldwide, analyzing and how to prevent thereof.

Developing Efficiency of Employees and Business

Training and Development Division assumed the responsibility of planning, preparing and carrying out all training activities. The Division covered all training programs and courses in addition to the events associated with developing employees' efficiency in FY 2017/2018, as follows:

- Implementation of Individual Development Action Plan (IDAP) was coordinated to cover the gaps therein compared to the functional role.

- To coordinate and follow up with the concerned employees to complete the training programs (E-Learning) assigned to 2017/2018.

- Plan and implement a training project aimed at developing the job efficiency for four groups of employees whose number is 20 (Job Grade from 14 to 19) as part of the company's initiative to qualify future talented leaders (Talent Management & Building Future Capabilities).

- Prepare, design and implement the project of Aaly 1 & Aaly 2 as per the plans approved for such projects for 2017/2018 through coordination and participation of KNPC team.

- KAFCO mechanized their operations. Fuel Management System tender was floated whereas Oracle Application was activated.

Kuwait Aviation Fueling Company mechanized their operations and updated their programs

Chapter Seven

Social Responsibility

KNPC endeavors to establish a strong relationship with all community classes and continuously aims to keep its operations safe, sound and to be harmless to the environment and society in general.

The Company continues its efforts to encourage and sponsor various social and sports activities. Moreover, it grants donations to the organizations which look after people with special needs in addition to public benefit institutions.

> KNPC has always been keen to participate in different occasions, including religious and national celebrations, simply due to the company's strong belief in its effective role in the social activities and its firm enthusiasm to perform its responsibilities thereupon

Social Involvement

Corporate Social Responsibility mirrors the company's supportive role in the national economy and development of the cultural, technical, educational and other community components. Moreover, KNPC endeavors to establish a strong relationship with all stakeholders and always tries to keep its operations safe and sound and harmless to the environment and society in general.

The company encourages and sponsors various social and sport activities. Furthermore, it grants donations for the organizations which look after people with special needs and the public benefit institutions. In this regards, Minister of Social Affairs & Labor highlighted the company's humanitarian contributions towards serving the community. You can find hereunder some significant social involvements:

- KNPC donated a "Braille" language printer to Kuwaiti Blind Society as a symbol of support which may enhance the Society's activities and enable it to print different scientific and cultural materials.
- Corporate Communication Department (CCD) paid a number of visits to hospitals and elderly homes as well as blind societies in different parts of Kuwait. The Department also took part in various religious and national celebrations.
- KNPC organized the 10th Ramadan tournament for memorizing and reciting the Holy Quran. The Contest was restricted only to the employees of KNPC and the oil sector as well as their dependents. Furthermore, the company organized the closed Ramadan tenth Oil Sector's Martyrs Football Championship in addition to some other sports games.
- KNPC organized the 10th HSE Excellent Performance Award ceremony-2017 as part of the company's constant effort to enhance HSE standards in its different activities, since this policy is deemed to be a cornerstone of the company's vision and values.
- Kuwait University - College of Engineering & Petroleum honored the company's CEO in recognition of the support and patronage of the University's projects and activities.
- Private Oil Sector Labor Union honored the company's CEO in recognition of its continuous support of the Kuwaiti youths working in the private sector and its support of the Kuwaitization policy as far as the contractors' contracts are concerned.
- KNPC Refineries and other worksites received scores of university students, particularly those of Petroleum Engineering Departments. They organized field tours for the students to acquaint them with the oil industry and its refining stages.
- Visits were arranged for a number of students from the College of Engineering & Petroleum – Civil Engineering Department

to Al-Zahra Station where they were presented to the company's environment-friendly stations and their capability of generating electricity from solar energy. Furthermore, they had the chance to go through the technical drawings, specifications and execution. The visit was a turning point in cooperation with the company regarding graduation projects for civil engineering students in the field of environment-friendly fuel stations.

- KNPC continued its induction campaigns (health – environment – safety) in schools of different stages in different parts of Kuwait. Campaigns included lectures on the basics of oil industry in Kuwait, environmental risks, projects and criteria adopted by the company for protecting the environment and compliance with international protocols and charters.

- In collaboration with "Kuwait Injaz" Society, KNPC accomplished the first phase of "Be a Leader" program through which the company undertook to support and sponsor training of 1,800 students of Public Authority for Applied Education and Training (PAAET) as well as high school students for three years.

- KNPC honored the winners of the 3rd version of the company's Fine Arts Award 2017. A special ceremony was organized and hosted by Kuwaiti Fine Arts Society, as part of its keenness on patronizing and urging Kuwaitis to develop their potentials, talents and creativity.

- KNPC CEO honored the Kuwaiti inventor Adel Al-Wasees who was awarded several international prizes, one of which was the Gold Medal Prize granted by the International Exhibition of Invention, Creativity & Technologies (I TECHS) which was held in Kuala-lumpur the Malaysian Capital City in May 2017. Patentee Adel Al-Wasees obtained four patents which are registered to his name in the USA.

- In an unprecedented step in Kuwait and the GCC, Gas Processors Association (GPA) – Gulf Chapter announced the election of MAA Technical Services Department Manager Engineer Wadha Al-Khateeb to preside over the GPA, thus the first woman to hold such position in this Association. Beforehand, Al-Khateeb was the Vice President of GPA and the only person in KNPC who has achieved such, and she evidently became a Kuwaiti model to follow.

- KNPC organized a meeting for "Engineering Standards Community" being the prominent community which was established lately due to KPC "Think-K" initiative which represents the largest oil engineering pool for exchanging expertise between K-companies. It includes an electronic platform for debate, discussion and introducing latest scientific studies and messages. KNPC abided by establishing such a unique community besides the IT Community. The company's choice thereof wasn't baseless, simply because it is a

Based on KNPC responsibility towards its community, this FY witnessed many activities and events

KNPC Fine Arts Prize was organized as part of its keenness on patronizing and urging Kuwaiti youth creativity

specialized technological forum which will yield thoughts which are related to oil and technical projects.

- In the same context, KNPC CEO launched in September 2017 the 1st event of the K-IT Community whose prime purpose was to collaborate the efforts between KPC subsidiaries, share knowledge and best practices, enhance integrity among them and cooperation among the stakeholders so that they can overcome the challenges the oil and gas industry faces.

- In May 2017, a three-year Memorandum of Understanding was entered between KNPC and PAAET aiming at boosting, developing and supporting the academic, research, scientific, training and joint cooperation in connection with technology and innovation.

- Fourteen employees from CCD were certified by the Global Reporting Initiative (GRI), highly competent and professional in technical reports which require an advanced methodology such as "Sustainability Report" as part of KNPC in taking up KPC Sustainability Report.

- KNPC participated in the first meeting of the fourth session of the Consolidated Partnership Advisory Council which aims to achieve more understanding and communication between K-companies and private sector companies, be it local suppliers, contractors or processors. The Council's session presidency extending for two years from 2017 to 2019 was transferred to KOC for the first time succeeding KNPC which has presided the Council since its establishment for three consecutive terms. KPC recommended that KNPC maintain occupying the secretariat position during the new session due to its well-organized efforts and which featured the team spirit during the previous period of time.

KNPC has always been keen on participating in different national and religious occasions

KNPC and Kuwait Unevirsity - College of Engineering & Petroleum established a close and distinct relationship

Kuwait Aviation Fueling Company

• Under the patronage of HH Amir of Kuwait Shaikh Sabah Al-Ahmed Al-Jaber Al-Sabah, who delegated on his behalf Deputy Minister of Amiri Diwan Shaikh Mohammed Al-Abdullah Al-Mubarak Al-Sabah to attend the opening ceremony of Kuwait Aviation Exhibition 2018 which was held in Kuwait Airport Yard, and for the first time in Kuwait, with the participation of Civil Aviation Authorities in the GCC and Arab friendly countries as well as more than 140 local and international companies working in the civil and military sectors in addition to 57 aircraft at the exhibition.

• The company believes that drugs are the most threatening lesion in our community that we should all fight and confront by all means. Since it exerts great efforts in fighting this lesion, KAFCO participated as a major sponsor in the works of International Training Program organized by (Ghirass) which is concerned with fighting drugs in Kuwait under the theme "Together to Train our Folks" which was held in collaboration with the International and Arabic Monitor Foundation. It was part of the first phase of the program whose aim is to educate and awaken primarily the family being the first line in defending the youths and confronting this deadliest drug lesion in our community.

• KAFCO signed in November 2017 Carbon Trading Agreement with the Gulf Organization for Research & Development (GORD) whose aim is to approve and support emission-free projects.

• One of the strategic projects "Aaly" systems was applied. It helps link all K-companies and the consolidated development efforts. It can be managed in an integral and modern way between KAFCO and Petroleum Training Center.

Exhibitions, Conferences & Seminars

• KNPC organized Residue Hydro-Treatment Conference for leveraging converting

In collaboration with "Kuwait Injaz" Society, KNPC accomplished training of 1,800 students

Engineer Wadha Al-Khateeb was elected the president of Gas Processors Association (GPA) - Gulf Chapter, thus being the first woman to preside over this association

capacities in the Refineries, enhancing the manpower and upgrading the technological capabilities. During the conference, KNPC CEO confirmed that Kuwait can hydro-treat heavy oil up to 758 mbpd upon completing the CFP compared to the existing capacity being 228 mbpd. "Kuwait will be one of the world's largest centers for the Residue Hydro-Conversion Units (RHU)," he added.

• KNPC participated in Oil Leaders Forum 2017 which was organized by KPC in May under the theme "For Kuwait We Work" during which achievements of KPC and subsidiaries in FY 2016/2017 were reviewed. Moreover, K-companies set the FY 2017/2018 policy. This is a challenge facing the oil sector which works hard to achieve its future goals despite all difficulties.

• KNPC participated in the 2nd Forum for K-IT Departments which was organized by K-IT Committee.

• Research & Technology Department of KNPC organized the 6th Forum about the latest downstream technologies and developments and the integration with KIPIC, in collaboration with Honeywell UOP.

• KNPC participated in the 3rd Kuwait Oil & Gas Show and Conference (KOGS) held in Sheikh Jaber Al-Ahmed Cultural Center under the patronage of HH Sheikh Jaber Mubarak Al-Hamad Al-Sabah the Prime Minister. Ministers and scores of CEOs representing international leading companies attended.

• KNPC participated in the Conference of American Society of Safety Engineers – Health, Safety, Security and Environment Kuwait Chapter (9th version). It was attended by Kuwaiti oil leaders, concerned parties and 350 VIPs whereas 42 technical worksheets were introduced thereat.

• KNPC participated in a workshop organized by KPC and its subsidiaries under the banner "Opportunities of Saving Energy Utilized in Oil and Petrochemical Industries." The workshop centered on the means of energy saving opportunities and maintaining resources.

• KNPC participated in Energy Strategy Forum – 4th Session, held under the patronage of Minister of Oil and Minister of Electricity & Water Bakheet Al-Rashidi. The Forum attracted a wide international participation from 20 countries to discuss the strategy of dealing with opportunities and challenges which the international energy sector faces. Participants also addressed investment strategies and energy funding mechanism in the long term.

• KNPC CEO presided over the 6th international HSE Conference organized by KPC in collaboration with Gulf Downstream Association (GDA) on February 12, 2018. Over 100 speakers, leaders and decision

KNPC organized and participated in several specialized conferences and exhibitions in and outside Kuwait

makers in the oil industry delivered speeches. During the conference, six workshops were conducted and 50 presentations were given in which around 100 companies from more than 20 countries participated in addition to more than 25 specialized associations and international institutions. The attendees discussed innovations and inventions which contribute to developing the work environment in HSE, upgrading environment criteria, motivating the employees and contractors to observe these standards and the government role in qualifying and training their technical staff. Each session of this international event was held in a different country and managed by a group specialized in all industries, most of which come from Asia, Middle East and North Africa.

- In coordination with International Petroleum Industry Environmental Conservation Association (IPIECA), KNPC organized a workshop whose aim is to promote the environment awareness and attract the modern practices with regards to the company's environmental performance.

- Under the patronage of HH The Amir of Kuwait Shaikh Sabah Al-Ahmed Al-Sabah and represented by Amiri Diwan Deputy Minister Shaikh Mohammed Al-Abdullah Al-Sabah, KNPC participated as part of KPC Suite in the 5th Kuwait Chemistry Conference 2018 which was held under the theme "Chemistry for a Better Future." Attendees were a group of elite and researchers from in and outside Kuwait as well as the Supreme Council of Arab Union of Chemists.

- The GDA Technical Committee of Project Management held its first meeting in Kuwait in February 2018. The CFP Management received the meeting events which lasted two days with the participation of Saudi Aramco, ADNOC, Bahraini BAPCO, and Kuwait Petroleum International - Q8 (KPI). The attendees sat for a presentation on CFP, the latest developments during the past period in addition to exchanging the best practices in the projects.

- KNPC participated in the "Middle East for Building Fuel Stations" Conference which was held in Dubai in January 2018. DCEO for Fuel Supply Operations submitted a worksheet on KNPC initiatives for utilizing the renewable energy at the fuel stations and its different installations.

- KNPC organized the 4th Annual Maintenance Summit in February 2018 which was attended by a number of international companies. The 4-Day conference achieved a real success with regard to the attendees' level and number of participating companies. Maintenance is an integral part of the Refineries' operations due to their direct reflections on reliability, equipment performance improvement and minimizing shutdowns.

Chapter Eight

Financial Report

The data mentioned herein details the FY results ending on 31/3/2018 compared to the previous FY results ending on 31/3/2017.

Total assets value in the balance sheet amounted to KD 8,523,138,675 compared to KD 8,670,211,931 for FY ending on 31/3/2017 showing a drop of KD 147,073,256.

KNPC continued marketing petroleum products in the local market in favor of KPC and whose value amounted to KD 528,976,766

Revenues

The company total revenues amounted to KD 7,230,698,896, i.e. a KD 296,016,621 decrease compared to the previous year detailed as follows:

Description	2017/2018	2016/2017
Oil refining revenues	5,002,389,653	4,939,791,821
Gas liquefaction revenues	2,049,635,404	1,634,867,795
Kuwait Aviation Fueling Co. (KAFCO) Revenues	146,079,440	-
Carwash revenues	264,332	247,087
Other revenues *	32,330,067	34,775,897
Total revenues	7,230,698,896	6,609,682,600

* Including interest on deposits, foreign currency exchange discrepancies, return on investment with an affiliate company, sale of depleted catalysts, obsolete and depreciated assets.

The company continued the marketing of petroleum products in the local market on behalf of KPC which amounted to KD 528,976,766 in the current fiscal year compared to KD 445,742,032 in the previous one.

Profit & Loss

The company operations during the fiscal year 2017/2018 revealed a net profit of KD 134,603,718 compared to last year's profit of KD 215,695,109.

The breakdown of the company Profit & Loss is detailed as follows:

Description	KD
Profits (loss) resulting from oil refining & gas liquefaction	103,056,283
Profits (loss) resulting from KAFCO activities	20,041,470
Profits (loss) resulting from local marketing activities	122,687
Other revenues	29,593,216
Provisions	(18,141,676)
Remuneration for Board of Directors	(68,262)
Total profits (loss)	134,603,718

Kuwait National Petroleum Company K.S.C.
and its subsidiary
State of Kuwait

Consolidated financial statements and independent auditor's report
for the year ended 31 March 2018

Contents ***Page***

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

Opinion

We have audited the consolidated financial statements of Kuwait National Petroleum Company K.S.C. ("the Company") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 March 2018, the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2018, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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 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 Group's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate 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 consolidated financial statements include the information required by the Companies Law No. 1 of 2016, as amended, 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, as amended, and its Executive Regulations, or of the Company's Memorandum and Articles of Association during the year ended 31 March 2018 that might have had a material effect on the business of the Group or on its consolidated financial position.

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

Kuwait : 26 April 2018

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 March 2018

	Notes	2018 KD'000	2017 KD'000
Revenue	*5*	7,198,369	6,574,907
Cost of sales	*6*	(6,906,759)	(6,230,251)
Gross profit		291,610	344,656
General and administrative expenses	*7*	(171,126)	(153,873)
Other income	*8*	11,360	11,784
Provisions- net	*9*	(18,142)	(9,799)
Share of profit of an associate	*11*	17,496	22,658
Interest income		899	283
Foreign exchange gain		2,575	50
Profit before board of directors' remuneration		134,672	215,759
Board of directors' remuneration	*23*	(68)	(64)
Profit for the year		134,604	215,695
Other comprehensive (loss) / income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences	*11*	(2,688)	1,442
Other comprehensive (loss) / income for the year		(2,688)	1,442
Total comprehensive income for the year		131,916	217,137

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

Kuwait National Petroleum Company K.S.C.
and its subsidiary
State of Kuwait

شركة البترول الوطنية الكويتية
KNPC
A Subsidiary of Kuwait Petroleum Corporation

Consolidated statement of financial position
as at 31 March 2018

	Notes	2018 KD'000	2017 KD'000
Assets			
Property, plant and equipment	*10*	5,327,695	5,504,673
Receivable from the Parent Company	*15*	169,139	147,570
Investment in an associate	*11*	150,619	148,003
Deferred expenses	*12*	17,160	16,861
Non-current assets		5,664,613	5,817,107
Inventories	*13*	432,790	440,047
Trade receivables	*14*	134,805	40,077
Due from related parties	*15*	1,735,995	1,746,177
Funds held by the Parent Company	*15*	321,430	-
Other receivables and prepayments	*16*	101,029	494,415
Cash and cash equivalents	*17*	94,395	91,658
Assets held for sale	*18*	38,082	40,731
Current assets		2,858,526	2,853,105
Total assets		8,523,139	8,670,212
Equity and liabilities			
Share capital	*19*	1,587,000	1,587,000
Statutory reserve	*20*	182,600	169,140
Foreign currency translation reserve		9,150	11,838
Acquisition reserve	*4*	27,006	-
Total equity		1,805,756	1,767,978
Financing received from the Parent Company	*15*	3,655,793	4,641,932
Employees' end of service benefits	*21*	323,606	248,583
Loans and borrowings	*22*	2,100,919	1,097,000
Non-current liabilities		6,080,318	5,987,515
Loans and borrowings	*22*	29,975	-
Trade payables		3,368	2,825
Other payables and accruals	*23*	449,945	686,343
Dividends payable	*24*	121,144	194,125
Due to related parties	*15*	32,633	31,426
Current liabilities		637,065	914,719
Total liabilities		6,717,383	6,902,234
Total equity and liabilities		8,523,139	8,670,212

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

Jamal Abdul Khaliq Al-Nouri
Chairman

Mohammed G. Al- Mutairi
Chief Executive Officer

Kuwait National Petroleum Company K.S.C.
and its subsidiary
State of Kuwait

شركة البترول الوطنية الكويتية
KNPC

Consolidated statement of changes in equity
for the year ended 31 March 2018

	Share capital KD '000	Statutory reserve KD '000	Foreign currency translation reserve KD '000	Retained earnings KD '000	Acquisition reserve KD '000	Total equity KD '000
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	-	-	1,442	215,695	-	217,137
Transfer to reserve	-	21,570	-	(21,570)	-	-
Dividends (Note 24)	-	-	-	(194,125)	-	(194,125)
Balance at 31 March 2017	1,587,000	169,140	11,838	-	-	1,767,978
Balance at 1 April 2017	1,587,000	169,140	11,838	-	-	1,767,978
Total comprehensive (loss) / income						
Profit for the year	-	-	-	134,604	-	134,604
Other comprehensive loss	-	-	(2,688)	-	-	(2,688)
Total comprehensive (loss) / income for the year	-	-	(2,688)	134,604	-	131,916
Transfer to reserve	-	13,460	-	(13,460)	-	-
Dividends (Note 24)	-	-	-	(121,144)	-	(121,144)
Acquisition of a subsidiary (Note 4)	-	-	-	-	27,006	27,006
Balance at 31 March 2018	1,587,000	182,600	9,150	-	27,006	1,805,756

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

Kuwait National Petroleum Company K.S.C.
and its subsidiary
State of Kuwait

شركة البترول الوطنية الكويتية
KNPC

Consolidated statement of cash flows
for the year ended 31 March 2018

	Notes	2018 KD'000	2017 KD'000
Cash flows from operating activities			
Profit before board of directors' remuneration		134,604	215,759
Adjustments for:			
Depreciation	*10*	48,435	48,995
Provisions- net	*9*	18,142	9,799
Amortisation of deferred expenses	*12*	11,624	16,097
Group's share of profit of an associate	*11*	(17,496)	(22,658)
Loss on sale of property, plant and equipment		24	-
Provision for employees' end of service benefits	*21*	132,049	67,159
Interest income		(899)	(283)
Foreign exchange gain		(2,575)	(50)
		323,908	334,818
Changes in:			
- inventories		11,294	(142,314)
- trade receivables		(25,072)	(13,272)
- due from related parties		(229,656)	(446,749)
- other receivables and prepayments		10,242	78,786
- trade payables		(15,017)	(2,792)
- other payables and accruals		(104,523)	113,508
- due to related parties		(66,921)	10,695
		(95,745)	(67,320)
Employees' end of service benefits paid	*21*	(63,185)	(43,032)
Board of directors' remuneration paid	*23*	(64)	(66)
Net cash used in operating activities		(158,994)	(110,418)
Cash flows from investing activities			
Purchase of property, plant and equipment	*10*	(1,100,204)	(2,100,324)
Acquisition of a subsidiary- net of cash acquired		511	-
Purchase of catalysts	*12*	(11,923)	(15,046)
Funds held by the Parent Company maturing after three months from the date of placement		(231,505)	-
Dividend received	*11*	12,192	-
Interest income received		899	283
Net cash used in investing activities		(1,330,030)	(2,115,087)
Cash flows from financing activities			
Proceeds from loans and borrowings	*22*	1,033,894	1,097,000
Funding received from the Parent Company	*15*	547,792	1,203,197
Net cash from financing activities		1,581,686	2,300,197
Net increase in cash and cash equivalents		92,662	74,692
Cash and cash equivalents at beginning of the year		91,658	16,966
Cash and cash equivalents at end of the year	*17*	184,320	91,658
Non-cash transactions			
Cash flows from operating activities		1,500,065	-
Cash flows from financing activities			
Funding received from the Parent Company	*15*	(1,500,065)	-

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

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"), which 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 98% (2017: 99%) of the Company's revenue is earned from the Parent Company.

During the year, the Parent Company transferred 100% of its equity interest in KAFCO to the Company (Note 4).

The consolidated financial statements comprise of the Company and its subsidiary (together referred to as "the Group") and its investment in an associate.

Name of entity	Country of incorporation	Principal business	Percentage of ownership	
			2018	2017
Kuwait Aviation Fuelling Company K.S.C. (Closed) ("KAFCO")	Kuwait	Aviation Fuelling	100%	-
Kuwait Aromatics Company K.S.C. (Closed)	Kuwait	Petrochemicals	40%	40%

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 26 April 2018 and are subject to approval of the Parent Company at the Annual General Assembly, which has the power to amend these consolidated financial statements after issuance at the Company's Annual General Assembly.

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

The consolidated 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 consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group'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 Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of assets as loans and receivables depends on the nature of the asset. If the Group 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 449,308 thousand (2017: KD 455,226 thousand). Their related provisions for slow moving and obsolete items relating to spare parts and catalyst were KD 16,518 thousand (2017: KD 15,179 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 Group 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 Group determines the estimated economical useful life of property, plant and equipment which requires considerable judgment.

e) Changes in accounting policies

The Group has adopted the following revised and newly issued IFRSs effective for annual periods beginning on 1 April 2017:

Disclosure initiatives (Amendments to IAS 7)

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

Amendments to IAS 12: Recognition of Deferred Tax Assets for unrealized losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance.

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. At the reporting date, this amendment does not have any impact on the Group.

Other amendments to IFRSs, which are effective for annual accounting period starting from 1 January 2017, did not have relevance nor any material impact on the accounting policies, financial position or performance of the Group.

3. Significant accounting policies

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

a) Basis of consolidation

i. Business combinations of common controlled entities.

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities that the acquirer receives in the acquisition are accounted for at the acquiree's carrying amount on the acquisition date. The difference between the carrying amount of the acquired net assets and the carrying amount of the consideration paid for the acquisition (including the total nominal value of shares issued) is recognised as other reserves in the consolidated statement of changes in equity. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

ii. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii. Non-controlling interests ("NCI")

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iv. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

v. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses rising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee and unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) 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 Group 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 Group 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 profit or loss when the asset is derecognised.

c) 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.

Group 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 Group 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 Group 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.

Group as a lessor

Leases where the Group 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.

d) Investments in associates

The Group's investment in its associate is accounted for using the equity method. An associate is an entity over which the Group 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 Group'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 consolidated statement of profit or loss reflects the Group'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 Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The consolidated 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 Group's financial statements. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group. Dividend received from associates are reduced from the carrying value of the investment.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in its associate. The Group 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 Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the impairment loss in profit or loss.

Upon loss of significant influence over the associate, the Group 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 profit or loss.

e) 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.

f) Deferred expenses

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

g) Financial instruments

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

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

The Group 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 Group becomes a party to the contractual provisions of the instrument.

The Group 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 Group 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 consolidated statement of financial position when, and only when, the Group 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 Group 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, funds held by 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(h)).

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.

Share capital

Share capital is classified as equity.

h) 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 Group on terms that the Group 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 Group 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 profit or loss 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 Group'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.

i) <u>Employees' end of service benefits</u>

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

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. The expected costs of these benefits are accrued over the period of employment.

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.

j) <u>Foreign currency transactions</u>

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.

k) Assets held for sale

Assets classified as held for sale are separately presented in the consolidated 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 in the consolidated statement of financial position.

l) Provisions

Provisions are recognised when the Group 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.

m) 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 Group during the year.

Finance cost is recognised in 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.

n) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 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.

o) Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective at 31 March 2018, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's financial results. The Group plans to adopt these pronouncements when they become effective.

IFRS 9: Financial Instruments

The IASB issued the final version of IFRS 9 Financial Instruments in July 2014, that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group will avail of the exemption allowing it not to restate comparative information for prior periods. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are required to be recognised in opening retained earnings and reserves as at 1 April 2018.

The Group has not performed a detailed impact assessment of IFRS 9 as the Group expects no significant impact on its statement of financial position and equity resulting from transition to IFRS 9.

Classification and measurement

The Group does not expect a significant impact on its financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring loans and receivables and other financial liabilities at amortised cost.

Impairment

IFRS 9 requires the Group to record expected credit losses on all its loans and receivables, either on a 12 month or lifetime basis. The Group will apply simplified approach and record lifetime expected losses on all its receivables.

Hedge Accounting

As at 31 March 2018, the Group does not have any hedge relationships. Hence, the hedging requirements of IFRS 9 will not have a significant impact on Group's consolidated financial statements.

Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15: Revenue from contracts with customers

The standard, effective for annual periods beginning on or after January 1, 2018, establishes a single and comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the following existing standards and interpretations upon its effective date:

- IAS 18 – Revenue,
- IAS 11 – Construction Contracts,
- IFRIC 13 – Customer Loyalty Programs,
- IFRIC 15 – Agreements for the Construction of Real Estate,
- IFRIC 18 – Transfers of Assets from Customers, and,
- SIC 31 – Revenue-Barter Transactions Involving Advertising Services

This standard applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The new standard also provides greater guidance on the accounting for provisionally priced contracts which applies to most of the Group's sales arrangements. The Group is currently assessing the impact of above matter under IFRS 15. The Group has anticipated that IFRS 15 will be adopted in the Group's consolidated financial statements when it becomes mandatory. Based on the current accounting treatment of the Group's major sources of revenue (Note 3 (n)) the management does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group, apart from providing more extensive disclosures on the Group's revenue transactions.

However, as the management are still in the process of assessing the full impact of the application of IFRS 15 on the Group financial statements, it is not practicable to provide a reasonable financial estimate of the effect until the management complete the detailed review.

IFRS 16 – Leases

IFRS 16 introduces a single, on balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including 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. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The management is still in the process of assessing the full impact of the application of IFRS 16 on the Group's consolidated financial statements as it is not practicable to provide a reasonable financial estimate of the effect until the management complete the detailed review.

The annual improvement to IFRS 2014-2016 cycle

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted.

IAS 28 Investments in Associates and Joint Ventures

This provides guidelines in relation to following interpretations;

- A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis.

- A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

The annual improvement to IFRS 2015-2017 cycle

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

Clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

IAS 12 Income Taxes

Clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.

IAS 23 Borrowing Costs

Clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction.

Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

4. Business combination

In March 2017, the Board of Directors of the Parent Company approved and transferred its 100% equity interest in KAFCO ("the Acquiree") to the Company ("the Acquirer") at zero consideration with effect from 1 April 2017. The Acquiree was established in 1963 and mainly involved in selling of jet fuel in the Kuwait market.

The Acquirer determined that this transaction is a common control transaction as the Parent Company remains the ultimate Parent Company of the Acquiree both before and after the business combination. Additionally, the Acquirer decided to account for this transaction at book value and recorded the gain on acquisition of the Acquiree as "Acquisition Reserve" in the consolidated statement of changes in equity since the transaction is entered with the Parent Company in their capacity as shareholders of the Company.

At the date of acquisition, the recognised amounts of assets acquired and liabilities assumed are as follows:

	KD '000
Property, plant and equipment- net (Note 10)	36,197
Inventories	4,626
Trade and other receivables	70,275
Due from related parties	15,517
Cash and bank balances	511
Employee end of service benefits (Note 21)	(6,159)
Financing advances from the Parent Company (Note 15)	(10,274)
Due to related parties	(68,127)
Trade and other payables	(15,560)
Total nets identifiable assets acquired	**27,006**
Consideration transferred	-
Gain on acquisition	**27,006**
Cash flows on business combination	
Consideration transferred	-
Cash and bank balances in acquired subsidiary	511
Net cash acquired	511

5. Revenue

	2018 KD '000	2017 KD '000
Refined products	5,002,390	4,939,792
Liquefied petroleum gas	2,049,636	1,634,868
Aviation fuel	146,079	-
Local marketing sales	264	247
	7,198,369	6,574,907

6. Cost of sales

	2018 KD '000	2017 KD '000
Cost of crude oil and gas	6,391,731	5,725,714
Staff costs	287,107	263,904
Other costs	170,198	177,438
Amortisation (Note 12)	11,624	16,097
Depreciation (Note 10)	46,099	47,098
	6,906,759	6,230,251

Included in the cost of sales is KD 142 thousand (2017: KD 122 thousand) which represents the cost of ancillary services and products relating to local marketing.

7. General and administrative expenses

	2018 KD '000	2017 KD '000
Staff costs	189,021	135,971
Other costs	9,333	34,555
Depreciation (Note 10)	2,331	1,892
Recovery of local marketing overheads from the Parent Company (Note 15)	(29,559)	(18,545)
	171,126	153,873

8. Other income

	2018 KD'000	2017 KD'000
Recovery of contract penalties	3,443	725
Handling charges	2,711	-
Gain on sale of catalysts	854	-
Gain on disposal of scrap materials	419	857
Insurance recoveries	50	5,866
Others	3,883	4,336
	11,360	11,784

9. Provisions- net

	2018 KD'000	2017 KD'000
Provision for legal claims	1,829	3,200
Provision for assets retirement obligation	15,000	2,500
Impairment loss on asset classified as held for sale (Note 18)	-	14,908
Provision for slow and obsolete inventories	1,313	-
Provision no longer required	-	(10,809)
	18,142	9,799

Kuwait National Petroleum Company K.S.C.
and its subsidiary
State of Kuwait

Notes to the consolidated financial statements
for the year ended 31 March 2018

10. Property, plant and equipment

	Tanks, pipelines and jetties KD '000	Plant and machinery KD '000	Freehold land, buildings and facilities KD '000	Vehicles and transportation equipment KD '000	Insurance spares KD '000	Assets under construction KD '000	Total KD '000
Cost							
Balance at 1 April 2017	759,995	2,117,684	215,660	4,576	39,757	4,681,343	7,819,015
Additions	3		14	687	2,149	1,097,314	1,100,204
Assets acquired on acquisition of a subsidiary (Note 4)	40,421	1,026	12,750	2,533	-	132	56,862
Reclassification from assets held for sale (Note 18)	24	9,302	11,152	-	-	-	20,478
Transfer from assets under construction	6,553	20,326	6,830	1,049	-	(34,758)	
Disposals	(118)	(387)	-	(24)	-	-	(529)
Assets transferred to the Parent Company			-	-	-	(1,264,942)	(1,264,942)
Balance at 31 March 2018	806,906	2,147,960	246,406	8,821	41,906	4,479,089	7,731,088
Accumulated depreciation and impairment losses							
Balance at 1 April 2017	670,585	1,444,512	175,950	4,487	18,808	-	2,314,342
Charge for the year	11,318	34,767	2,790	140	1,324	-	50,339
Assets acquired on acquisition of a subsidiary (Note 4)	13,295	860	4,058	2,451	-	-	20,664
Reclassification from assets held for sale (Note 18)	2,497	4,904	11,152	-	-	-	18,553
Relating to disposals	(118)	(363)	-	(24)	-	-	(505)
Balance at 31 March 2018	697,577	1,484,680	193,950	7,054	20,132	-	2,403,393
Carrying amounts							
At 31 March 2018	109,329	663,280	52,456	1,767	21,774	4,479,089	5,327,695

Kuwait National Petroleum Company K.S.C.
and its subsidiary
State of Kuwait

Notes to the consolidated financial statements
for the year ended 31 March 2018

10. Property, plant and equipment (continued)

	Tanks, pipelines and jetties KD '000	Plant and machinery KD '000	Freehold land, buildings and facilities KD '000	Vehicles and transportation equipment KD '000	Insurance spares KD '000	Assets under construction KD '000	Total 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 18)	(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		(488)	(2)	(182)		-	(4,740)
Assets classified as held for sale (Note 18)	[illegible]	(119,848)	(16,218)	(5)	[illegible]	-	(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

Freehold land, buildings and facilities includes an amount of KD 422,484 (2017: KD 422,484) which represents freehold land. Further assets under construction of KD 3,594,586 thousand (2017: KD 2,751,228 thousand) relates to the Clean Fuels Project ("CFP"). During the year, the Group capitalised borrowing cost amounted to KD 112,108 thousand (2017: KD 28,895 thousand) related to CFP.

On 1 May 2017, the Company transferred assets under construction amounted to KD 1,264,942 relating to Al-Zour Refinery Project ("ZRP") to the Parent Company.

The depreciation charge has been allocated as follows:

	2018 KD '000	2017 KD '000
Cost of sales of refined products (Note 6)	46,099	47,098
General and administrative expenses (Note 7)	2,331	1,892
Local marketing costs	5	5
Charged to the Group's profit or loss	48,435	48,995
Charged to the Parent Company in respect of local marketing	1,143	1,153
Charged to Kuwait Oil Company and other related parties	761	536
	50,339	50,684

11. Investment in an associate

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

	2018 KD '000	2017 KD '000
Balance at beginning of the year	148,003	123,903
Share of results	17,496	22,658
Foreign currency translation differences	(2,688)	1,442
Dividend received	(12,192)	
Balance at end of the year	150,619	148,003

The following table illustrates summarised financial information of KARO:

	2018 KD '000	2017 KD '000
Statement of financial position		
Non-current assets	514,768	502,464
Current assets	384,800	483,484
Non-current liabilities	(325,351)	(444,302)
Current liabilities	(197,669)	(171,638)
Net assets	376,548	370,008
Group's share of net assets (40%)	150,619	148,003
Statement of profit or loss and other comprehensive income		
Revenue	432,342	379,242
Profit	43,740	56,645
Group's share of profit (40%)	17,496	22,658
Commitments and contingencies	2,670	2,574

12. Deferred expenses

	2018 KD'000	2017 KD'000
Balance at beginning of the year	16,861	17,912
Additions	11,923	15,046
Amortisation charge (Note 6)	(11,624)	(16,097)
Balance at end of the year	17,160	16,861

13. Inventories

	2018 KD '000	2017 KD '000
Crude oil	14,901	15,418
Refined products	349,565	355,526
Maintenance and spare parts	71,583	72,797
Catalysts and chemicals	12,181	9,988
Goods in transit	1,078	1,497
	449,308	455,226
Provision for obsolete and slow moving inventories	(16,518)	(15,179)
	432,790	440,047

On 31 March 2017, the Company transferred inventories of KD 18,636 thousand, net of provision for obsolete and slow moving inventories, to assets held for sale (Note 18).

14. Trade receivables

	2018 KD '000	2017 KD '000
Trade receivables	135,610	40,264
Provision for doubtful debts	(805)	(187)
	134,805	40,077

Trade receivables are non-interest bearing and have average credit period ranges from 30-90 days. At the reporting date, trade receivables of KD 805 thousand (2017: KD 187 thousand) were impaired and fully provided for. Trade receivables are denominated in Kuwaiti Dinars and located in Kuwait.

15. 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 consolidated 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 consolidated financial statements are as follows:

	2018 KD '000	2017 KD '000
Balances with related parties		
Due from related parties		
Parent Company	1,724,821	1,745,300
Kuwait Paraxylene Production Company K.S.C.	-	87
Kuwait Oil Tanker Company K.S.C.	184	139
Kuwait Gulf Oil Company K.S.C.	68	124
Petrochemical Industries Company K.S.C.	106	127
Kuwait Foreign Petroleum Exploration Company K.S.C.	16	3
Kuwait Petroleum International	50	46
Kuwait Integrated Petroleum Industries Company K.S.C.	10,714	309
Oil Sector Servicing Company K.S.C.	-	11
Other related parties	36	31
	1,735,995	1,746,177
Funds held by the Parent Company	321,430	-
Non- current asset		
Receivable from the Parent Company*	169,139	147,570
Due to related parties		
Kuwait Oil Company K.S.C.	31,334	31,426
Kuwait Paraxylene Production Company K.S.C.	1,299	-
	32,633	31,426
Non-current liabilities		
Financing received from the Parent Company**	3,655,793	4,641,932

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

	2018 KD '000	2017 KD '000
Balance at beginning of the year	4,641,932	3,606,708
Acquisition of a subsidiary (Note 4)	10,274	-
Net assets of ZRP transferred to the Parent Company	(1,500,065)	-
Advances received	547,792	1,203,197
Advances credited to the Parent Company's current account	(44,140)	(167,973)
Balance at end of the year	3,655,793	4,641,932

*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 Group 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.

Funds held by the Parent Company represents temporary placement by the Company using the proceeds received from the export credit agencies loans until those proceeds being used for its intended use. These amounts have been invested in term deposits by the Parent Company on behalf of the Company and it earns interest at an average rate of 2.1% to 2.5% respectively (2017: nil) per annum.

As at and for the year ended 31 March 2018, the Group has not recorded any impairment loss against balances due from related parties (2017: nil).

The Group 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 Group 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 528,977 thousand (2017: KD 445,742 thousand). The direct operating cost relating to local marketing operations incurred by the Group on behalf of the Parent Company amounting to KD 40,594 thousand (2017: KD 35,489 thousand) is also not reflected in profit or loss of the Group. General and administrative costs relating to local marketing amounting to KD 29,559 thousand (2017: KD 18,545 thousand) are also charged to the Parent Company (Note 7).

The Group 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 10).

	2018	**2017**
	KD '000	**KD '000**
Transactions with related parties		
Sales	7,052,025	6,574,660
Purchases	6,906,618	6,230,129
Financing received from the Parent Company	547,792	1,203,197
Funds held by the Parent Company	321,430	-
Marine expenses	36,850	36,395
Interest income adjusted against borrowing costs	1,952	-
Medical expenses	70,216	62,727
Net assets of ZRP transferred to the Parent Company	1,500,065	-
Key management compensation		
Salaries and short-term benefits	1,051	1,073
Employees' end of service benefits	572	251
	1,623	1,324

16. Other receivables and prepayments

	2018 KD '000	2017 KD '000
Prepayments and deposits	13,726	11,046
Advances against projects	45,278	465,306
Other receivables	42,025	18,063
	101,029	494,415

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

17. Cash and cash equivalents

	2018 KD '000	2017 KD '000
Cash in hand	2,850	-
Cash at bank	91,545	91,658
Cash and cash equivalents as disclosed in the consolidated statement of financial position	94,395	91,658
Funds held by the Parent Company maturing within three months from the date of placement	89,925	-
Cash and cash equivalents as disclosed in the consolidated statement of cash flows	184,320	91,658

Cash and cash equivalents include funds held by the Parent Company as these are expected to be received within three months from the date of placement.

18. Assets held for sale

Following the Board of Directors resolution dated 21 March 2017, the Company shut down Shuiaba Refinery ("SHU") operations with effect from 31 March 2017. Consequently, the Company transferred certain assets to other refineries and decided to dispose off the remaining assets. Subsequent to above, the management classified the transaction as asset held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* and presented separately in the consolidated statement of financial position. Furthermore, a Disposal Committee was established and actively working on identification and negotiation with the potential buyers of the SHU assets. The management determined that substantial period is required for dismantling and transferring of SHU assets to the potential buyer, after conclusion of the sales transaction.

Movement of assets classified as held for sale are as follows:

	2018 KD '000	2017 KD '000
Balance at beginning of the year	40,731	-
Transfers from property, plant and equipment (Note 10)	-	37,003
Transfers from inventories (Note 13)	-	18,636
Provision for inventories	-	(14,908)
Reclassification to property, plant and equipment (Note 10)	(1,925)	-
Reclassification to inventories	(724)	-
Balance at end of the year	38,082	40,731

Subsequent to 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 2018. As a result, no impairment loss was recognized; and

- Estimated fair value less cost to sell of inventories is approximate to its carrying value as at 31 March 2018.

19. Share capital

The authorized, issued and fully paid up share capital of the Company comprises of 1,587 million shares of KD 1 each (2017: 1,587 million shares of KD 1 each) and is fully contributed in cash.

20. 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.

21. Employees' end of service benefits

	2018 KD '000	2017 KD '000
Balance at beginning of the year	248,583	224,456
Acquisition of a subsidiary (Note 4)	6,159	-
Charge for the year	132,049	67,159
Payments made during the year	(63,185)	(43,032)
Balance at end of the year	323,606	248,583

22. Loans and borrowings

	2018 KD '000	2017 KD '000
Current portion		
Export credit agencies loans	29,975	
Non-current portion		
Long term loans	1,200,000	1,097,000
Export credit agencies loans	900,919	
	2,100,919	1,097,000

Long-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 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% (2017: 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:

2018	**Total Facility KD '000**	**Drawdown KD '000**	**Unutilized funds KD '000**
Conventional financing	710,000	710,000	-
Islamic financing	490,000	490,000	-
	1,200,000	1,200,000	-

2017	**Total Facility KD '000**	**Drawdown KD '000**	**Unutilized funds 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

Export credit agencies loans

On 29 August and 31 August 2017, the Company signed USD 6,245 million (equivalent to KD 1,872 million) long term loan facilities agreement with export credit agencies ("the ECAs Financing"). The ECAs Financing are repayable over a period of 8 to 10 years in biannual instalments starting from 2018 and maturing between 2026 to 2028. Out of the total committed ECAs Financing, USD 500 million (equivalent to KD 150 million) carries fixed interest rate of 3.22% per annum and USD 5,745 million (equivalent to KD 1,772 million) carries variable interest rate of 6 months LIBOR + margin that ranges from 0.75% to 1.25% per annum. Interest is payable on a biannual basis. ECAs Financing is guaranteed by the Parent Company and were specifically borrowed to finance CFP.

At the reporting date, details of the ECAs Financing is as follows:

2018	**Total Facility KD '000**	**Drawdown KD '000**	**Unutilized funds KD '000**
Export credit agencies loans	1,871,939	930,894	941,045

ECAs Financing and long term loans carry covenants which are tested on annual basis. These covenants includes leverage covenant, interest cover charge, tangible net worth. At the reporting date, the Company is in compliance with above said customary covenants.

23. Other payables and accruals

	2018 KD '000	**2017 KD '000**
Accrued expenses	156,885	380,993
Accrued utilities	19,071	12,891
Contract retentions	217,527	244,729
Other payables	32,184	25,753
Leave provision	24,278	21,977
	449,945	686,343

Accrued expenses includes an amount of KD 68 thousand (2017: KD 64 thousand) relating to board of directors' remuneration for the year ended 31 March 2018, which is subject to approval of shareholders in the Annual General Assembly.

24. Dividends payable

	2018 KD '000	**2017 KD '000**
Balance at beginning of the year	194,125	158,127
Profit for the year	121,144	194,125
Amounts transferred to the Parent Company	(194,125)	(158,127)
Balance at end of the year	121,144	194,125

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 consolidated financial statements, dividend payable will be transferred to the Parent Company.

25. Operating lease arrangements

The Group 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.

	2018 KD '000	2017 KD '000
Minimum lease payments recognised as an expense in the current year	5,302	5,874

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

	2018 KD '000	2017 KD '000
Within one year	6,900	8,180
After one year but not more than five years	8,280	9,816
	15,180	17,996

26. Financial risk management

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

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

The Group's risk management policies are established to identify and analyze the risks faced by the Group, 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 Group's activities. The Group, 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 Group's risk oversight committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group 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, funds held by the Parent, 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.

	2018 KD '000	2017 KD '000
Receivable from the Parent Company	169,139	147,570
Trade receivables	134,805	40,077
Other receivables	42,025	18,063
Due from related parties	1,735,995	1,746,177
Funds held by the Parent Company	321,430	-
Bank balances	94,395	91,658
	2,497,789	2,043,545

The Group 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. Of above total trade receivables KD 50,086 thousand (2017: nil) are neither past due nor impaired. The Group does not hold any collateral against these receivables. At the reporting date, majority of the Group's trade receivables represents amounts due from governmental institutions.

At the reporting date, following customers' accounts for more than 91% (2017: 85%) of the outstanding trade receivables balance:

	2018 KD '000	2017 KD '000
First Fuel Marketing Company K.S.C.	17,318	13,519
Al-Sour Fuel Marketing Company K.S.C.	17,202	12,279
Ministry of Defence, Kuwait	2,708	7,695
Ministry of Interior, Kuwait	1,088	434
Kuwait Airways Company K.S.C	84,719	-

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

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group'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 Group'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 Group's long-term funding and liquidity management requirements. The Group 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 Group'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.

		Contractual cash flows				
	Carrying amounts KD '000	**Within 3 months KD '000**	**3 to 12 months KD '000**	**1 to 5 years KD '000**	**More than 5 years KD '000**	**Total KD '000**
2018						
Loans and borrowings	2,130,894	26,988	50,988	1,275,737	1,163,094	2,516,807
Financing received from the Parent Company	3,655,793	-	-	3,655,793	-	3,655,793
Trade payables	3,369	3,369	-	-	-	3,369
Dividends payable	121,144	121,144	-	-	-	121,144
Other payables and accruals	449,943	-	449,943	-	-	449,943
Due to related parties	32,634	32,634	-	-	-	32,634
	6,393,777	184,135	500,931	4,931,530	1,163,094	6,779,690
	KD '000	**KD '000**	**KD '000**	**KD '000**	**KD '000**	**KD '000**
2017						
Loans and borrowings	1,097,000	10,970	32,910	774,400	593,600	1,411,880
Financing received from 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	239,346	719,253	5,416,332	593,600	6,968,531

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

Currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rates exposures are managed within approved policy parameters.

Currency risk is mainly related to the Group's exposure to the loans and borrowings, cash at bank and funds placed with the Parent Company denominated in US Dollars.

	2018 KD'000	2017 KD'000
Assets	304,893	794
Liabilities	(930,894)	-
Net (short) / long exposure	(626,001)	794

The following exchange rates has been applied;

	Average rate		Year-end spot rate	
	2018	2017	2018	2017
US Dollars	0.30364	0.30200	0.29975	0.30525

Sensitivity analysis

A 5 percent strengthening of the KD against US Dollars at the reporting date would have increased / (decreased) the profit for the year and equity by KD 31,300 thousand (2017:KD 40 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest/ profit rate risk

Interest rate risk is the risk that the fair value or future cash flows of Group'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 Group'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 Group is exposed to interest /profit rate exposure on floating rate loans and borrowings.

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 19,810 thousand (2017:KD 10,970 thousand). 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 Group 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 Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group 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 Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The Group 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 Group 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.

27. 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 Group monitors its capital structure and makes adjustment to it in light of changes in economic conditions. The Group 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:

	2018 **KD '000**	**2017** **KD '000**
Financing received from the Parent Company	3,655,793	4,641,932
Loans and borrowings	2,130,894	1,097,000
Cash and cash equivalents	(94,395)	(91,658)
Net debt	5,692,292	5,647,274
Total equity	1,805,756	1,767,978
Total capital	7,498,048	7,415,252
Gearing ratio	75.92%	76.16%

There were no changes in the Group'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, as amended, and its Executive Regulations.

28. Capital commitments

As at the reporting date, the Group had commitments in respect of future capital expenditure amounting to KD 459,311 thousand (2017:KD 449,871 thousand). Except for CFP, other commitments will be financed by the Parent Company (Note 15).

Contingent liabilities

The Group 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 Group's consolidated financial statements if disposed unfavourably.

Acknowledgement

Kuwait National Petroleum Co. extends its appreciation and gratitude to all employees due to the great efforts they exerted. As a matter of fact, KNPC employees have been the foundation stone from which the company powered ahead to resume its journey, assume its responsibilities and achieve its success at all levels.

@knpcofficial

Recyclable