Strategic Planning

Annual Report 2018/19

شركة البترول الوطنية الكويتية
KNPC
A Subsidiary of Kuwait Petroleum Corporation

Strategic Planning

Annual 2018
Report 19

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

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

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BOARD OF DIRECTORS

Mr. Jamal Al-Nori
Chairman

Ms. Hosniah Hashem
Deputy Chairman

Mr. Mohammad Al-Mutairi
CEO

Sheikh Talal Al-Sabah
Board Member

Mr. Khalid Al-Mushaileh
Board Member

Mr. Naser Al-Saleh
Board Member

Ms. Shaimaa Al-Ghonaim
Board Member

BOARD OF DIRECTORS

As of 4/2/2019

Mr. Hamza Abdullah Bakhash
Chairman

Mr. Yousif Al-Yateem
Vice Chairman

Mr. Waleed Al-Bader
CEO

Ms. Nadia Badaer Hajji
Board Member
As from 11/3/2019

Mr. Bader Al-Munaifi
Board Member

Mr. Saad Boukhosa
Board Member

Mr. Abdulnaser Al-Fulaij
Board Member

TOP MANAGEMENT 2018

Mr. Mohammad Ghazi Al-Mutairi
CEO

Mr. Abdulla Al-Ajmi
Deputy CEO Projects

Mr. Fahad A. Al-Dihani
Deputy CEO Mina Ahmadi Refinery

Mr. Mutlaq Al-Azmi
Deputy CEO MAB

Mr. Jamal Al-Loghani
Deputy CEO Fuel Supply Operations

Mr. Naser Al-Shamma
Deputy CEO Support Services

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

Mr. Khaled Al-Khayyat
Deputy CEO Planning & Finance

TOP MANAGEMENT 2018/2019

Mr. Waleed Al-Bader
CEO
As from 24/2/2019

Mr. Abdulla Al-Ajmi
Deputy CEO Projects

Mr. Fahad A. Al-Dihani
Deputy CEO Mina Ahmadi Refinery

Mr. Mutlaq Al-Azmi
Deputy CEO MAB

Mr. Khaled Al-Khayyat
Deputy CEO Planning & Finance

Mr. Naser Al-Shamma
Deputy CEO Support Services

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

Mr. Ghanim Naser Al-Otaibi
Deputy CEO Fuel Supply Operations
As from 19/6/2019

CEO Statement

I'm so delighted to introduce hereby the Kuwait National Petroleum Company "KNPC" Annual Report for the Fiscal Year 2018/2019 which reviews implementing the company's most important projects, especially the Clean Fuels Project "CFP" whose completion rate reached up to 97.8% by the end of the fiscal year, and the Gas Train – 5 Project which is in progress. However, it is expected to be completed in March 2021.

A number of "CFP" production units has commenced operating at Mina Al-Ahmadi Refinery after modernizing some of them, such as the Vacuum Distillation Unit and the Alkylation Unit. The first "CFP" hydrocarbon line was commissioned and the Diesel Hydro Treater Unit (U-216) which will produce low-sulfur diesel for export, besides the operation of the project flare, as an indication to the pilot operation of the Steam Production Unit and service units of the project, is commenced. Other production units will follow in the near future.

With the completion of these mega projects, KNPC will enter a new phase in which many major challenges require all of us to exert additional efforts to overcome them.

The execution of these vital projects coincides with the launch of the Downstream Strategy 2040, which focuses on enhancing Kuwait's refining capacity in terms of quantity and quality by producing high quality products up to the highest international standards. The implementation of this ambitious strategy faces many challenges, the most important of which are the increasing competitiveness, the continuous fluctuations in the global oil markets and the growing reliance on renewable energy sources as an alternative to oil.

Therefore, we must do more to reach higher levels of employee efficiency, leadership, operational reliability, and reduced costs to enhance our competitiveness in the global market.

The Eocene Crude Oil Distillation Unit was successfully operated after a break of more than two years to meet the domestic demand for bitumen. This unit has a special importance because it uses West Kuwait Oil, in addition to the urgent need for bitumen in Kuwait, especially after an extensive damage which the roads experienced as a result of heavy rains that have hit Kuwait this year.

We are proud that the company achieved a daily refining rate of 692.4 thousand barrels per day

(MBPD) by both refineries, which exceeded what we have achieved last year, which was 667.0 MBPD. Total sales of the company's products amounted to KD 8,918 million in 2018/2019 compared to KD 7,052 million in the previous fiscal year.

The net loss at the end of the year amounted to KD 213 million. This loss is mainly due to the compensation paid by the company to the retired employees and the settlement of the status of transfer them to associate k-companies, particularly Kuwait Integrated Petroleum Industries Co. (KIPIC).

As for the company's efforts in protecting the environment, a tender was issued for Al-Dibdiba Project to establish a solar power plant with a capacity of (1,500) MW within Shagaya Complex. Construction of the plant is expected to commence soon after potential contractors visited the site. It should be noted here that solar panels will be used in 10 filling stations which will be fully powered by renewable energy.

The construction of 18 new fuel filling stations is nearing completion and will be built in new cities such as Jaber Al-Ahmad and Sabah Al-Ahmad, part of a five-year plan to build 99 new filling stations across Kuwait.

Among the many projects aimed at reducing greenhouse gas emissions and the environmental impact of the company's operations are the construction of a new unit for the treatment of acid gases, and the rehabilitation of the existing unit at Mina Al-Ahmadi Refinery. This project, which will be environmentally and economically significant, will soon be completed through the recovery of sulfur gases and the production of sulfur.

The company continued to meet its corporate social responsibility and commitments, including the issuance of the 4th Sustainability Report, which focuses on the company's initiatives to support the well-being of the community and to have a positive impact on the community and environment. Furthermore, we have also launched “Think Sustainable!”, which incorporates sustainability concepts into an integral part of our daily activities.

The company has set up an «Innovation Team» which aims to embrace the ideas and insights presented by the company's employees and study the feasibility of their application in order to enhance the efficiency of production processes and the development of the work atmosphere in general so as to be more flexible and better able to meet various challenges.

The company is so keen to develop manpower and create technical job opportunities for engineers and graduates from scientific colleges. Therefore, 385 new employees were recruited this year, including 320 Kuwaitis, all of whom have undergone general and technical training programs. After passing the Structured On-The-Job Training “S-OJT” program, 99 engineers of different KNPC technical fields have graduated. This advanced technical training program addresses the gap between the academic and the applied side, and gives the engineers the opportunity to acquire technical knowledge and experience necessary to practice their works efficiently.

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. Actually, they worked effectively, professionally and in a one-team spirit. I am pleased to extend to them all, in my name and on behalf of the Board of Directors and the top management, our deepest appreciation and gratitude. We also hope that their valuable contribution will continue in the coming years to ensure that the company continues to play its vital role, for the good of the company and our dear country.

May Al-mighty God Bless you all!

Waleed Khaled Al-Bader
Chief Executive Officer

Remarkable Achievements during 2018/2019

- Launching Downstream Strategy 2040
- CFP's completion rate reached up to 97.8%
- Executing Gas Train – 5 Project is in progress
- Signing contracts for constructing 18 new filling stations
- Inaugurating CFP 1st Hydrocarbon Line
- Achieving 94% production rates out of the actual production capacity
- Calling for bids for Al-Dibdibah Renewable Energy Project
- Total sales amounted to KD 8.9 billion compared to KD 7.0 billion last year
- Total revenues amounted to KD 9.2 billion compared to KD 7.2 billion last year

Main Indicators

	2018/2019	2017/2018	2016/2017
Financial Indicators			
Total KNPC products sales	8,918.0	7,052.0	6,571.5
Total KAFCO sales	174.9	146.1	-
Total Kuwait Aromatics Co. sales *	144.6	-	-
Total Local Marketing sales**	566.6	529.0	446.0
Net profits	(213.1)	134.6	215.7
Total operational expenditure	816.7	686.4	658.4
Capital expenditure	549.3	1,098.0	2,099.0
Changes in total fixed assets	881.2	2,012.6	2,053.7
Average Crude Oil feedstock (x000 bpd)			
Shuaiba Refinery	-	-	191
Mina Abdullah Refinery	270.6	270.7	228.8
Mina Al-Ahmadi Refinery	421.8	396.3	401.5
Total	692.4	667.0	821.3
Sales			
Products exported to global markets (x000 ton)	27,508.2	25,503.0	31,302.5
Fuel to Local Marketing (million liters)	6,851.8	6,558.0	6,115.0
Fuel to MEW (Million liters)	6,707.4	7,405.6	8,159.0
Bitumen (x000 metric ton)	229.7	147.6	113.0
Manpower			
Manpower as at the end of the Fiscal Year***	6,378	6,209	6,352

(*) Including Kuwait Aromatics Co. Sales during Q4 of fiscal year 2018/2019 (over 3 months)
(**) Sales of petroleum products in the local market include sales on behalf of KPC and KNPC
(***) Including KAFCO manpower totaling 59 employees compared to 71 as per balance sheet

OUR VALUES

Reflect the Core

2040 Strategy

Kuwait National Petroleum Co. "KNPC" launched during this fiscal year its 2040 Strategy which was inspired by KPC 2040 Strategy Directives. The refining and petrochemicals sector occupied an important part of it because of the added value of this industry to the Kuwaiti oil wealth. This strategy has been developed to meet the increasing challenges locally and globally, especially the low profit margins and the emergence of competitive energy sources.

The first targets to be achieved under this strategy are to increase the refining capacity of the State of Kuwait to 1.4 million barrels per day (MMBPD) in 2020, to 1.7 MMBPD in 2025, and then to 2 MMBPD in 2035.

This is coupled with the expansion of gas processing capacity and the production of high quality fuels to meet the needs of the domestic and global markets for clean and environmentally friendly products, the thing which means developing our deep conversion capabilities.

These objectives also include enhancing the operational efficiency and reliability of our facilities, and operating the facilities and assets of the company to its fullest capacity according to the best standards, to achieve the highest economic feasibility, and increase the levels of security

INTEGRITY

Acting in a trustworthy manner with the highest standards of ethics, respect and honesty

INNOVATION

Developing and embracing new ideas, methods and approaches to solving challenges that create value

EXCELLENCE

Encouraging high performance, continuous improvement and customer focus

ONE TEAM

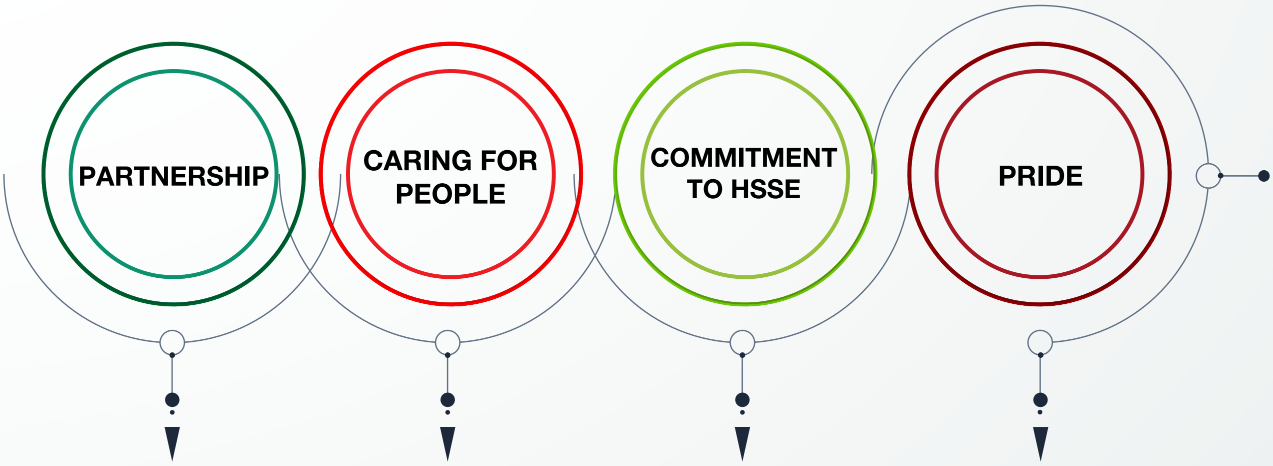
Caring for the interests of KPC and ensuring alignment to achieve Corporate and State goals

Qualities that KNPC Embodies

and safety in all our facilities. It also includes improved efficiency in energy management and increased reliance on renewable energy for operating production and administrative buildings and facilities.

Another key objective of the 2040 Strategy is to improve the integration process between the refining and petrochemical industries. This integration is expected to bring many economic benefits to the Kuwaiti oil sector, such as the availability and proximity of feed stock and the ease of logistical interdependence, thus enhancing the competitiveness of Kuwaiti petrochemical industries in international markets.

We, at KNPC, recognize the scale of these challenges and are fully aware that achieving the goals of this ambitious strategy requires following the best practices, fostering creative thought and entrepreneurship and motivating our employees to innovate. Above all, having a trained and qualified workforce with technical expertise and superior scientific knowledge are aspects which the company is working hard to enhance and develop.



Partnership: Building and sustaining relationships that support growth and enhance operational excellence

Caring for People: Creating a culture where people develop, grow and are positively motivated to contribute to the success of others

Commitment to HSSE: Respecting the environment and ensuring safety, security and the promotion of a healthy workplace wherever KPC operates

Pride: Creating employee satisfaction on an individual level and promoting a sense of loyalty and belonging to KPC

Chapter One

Oil Refining & Gas Liquefaction

Both MAB and MAA Refineries continued achieving high performance rates in terms of reliability, operational efficiency associated with precise application of health, safety and environment systems, the thing which resulted in reducing the number of work-related accidents. Moreover, significant phases for tie-ins to the Clean Fuels Project "CFP" were carried out, as this project approaches the final stages of its execution, towards its official operation.

The total refining quantities at both refineries amounted to 252.6 million barrels in FY 2018/2019, compared to 243.4 million barrels in 2017/2018.

Oil Refining & Gas Liquefaction

Both refineries (MAB and MAA) achieved high performance rates closer to the targeted limits in terms of reliability, operational efficiency associated with precise application of health, safety and environment systems, the thing which resulted in reducing the number of work-related accidents. Moreover, significant phases for tie-ins to the Clean Fuels Project "CFP" were carried out, as this project approaches the final stages of its execution.

- The feedstock for both refineries reached 692.4 MBPD during the fiscal year 2018/2019 compared to 667 MBPD in 2017/2018.
- The total refined quantities at both refineries amounted to 252.6 million barrels in FY 2018/2019 compared to 243.4 million barrels in 2017/2018.

Mina Al-Ahmadi Refinery (MAA)

During the fiscal year 2018/2019, all crude oil refined output at MAA edged up to 153.9 million barrels, compared to 144.6 million barrels during the previous year, while the crude oil feedstock averaged during this FY 421.8 MBPD compared to 396.3 MBPD during the previous year.

Total products exported from MAA during this year amounted to around 9,975.6 thousand metric tons, in addition to around 671.0 thousand metric tons of sulfur.

MAA Outstanding Achievements

During 2018/2019, departments working at MAA demonstrated an outstanding performance resulting in prominent achievements, such as:

- Operating Tail Gas Treatment Unit "TGTU" inside Acid Gases Recovery Project "AGRP" for seven continuous months starting from August 16, 2018 for the first time since the commencement of the unit, the thing which resulted in reducing gaseous emissions and minimizing environmental damage.
- Successful operation of Distillation Unit of Eocene crude oil "Unit-39" on November 12, 2018 after a period of shutting down for over two years, through using West Kuwait oil, for meeting the local demand for bitumen.
- Upgrading some CFP units at MAA, such as Vacuum Recovery Unit "VRU – U-83" and Alkylation Unit (U-46). Besides, inaugurating first Hydrocarbon Line as part of the service units in addition to operating the flare thereof as well as commissioning Boiler Feed Pump "BFP".
- Operating the new line for supplying nitrogen from North Gas Tanks to the units of Refinery Modernization Project "RMP" and Further Upgrading Project "FUP" at an average of 750 cubic meters per hour (m3/h).
- Treating the atmospheric residue from Atmospheric Residues Desulfurization Unit "ARD" at gas oil treatment units (Units 44 & 58) for producing low sulfur gas oil (LSGO).
- In order to avoid the burning of surplus fuel gas, this surplus of low-pressure fuel gas produced from MAFP Units (MTBE, Alkylation, FCC Revamp) was converted to the main fuel gas through the new gas line, resulting in saving 300 thousand US dollars per day.
- Completion of the first phase of lighting the main road of Mina Al-Ahmadi Refinery using solar panels.
- A net was installed in the sea at a distance of 470 meters and a depth of 25 meters from the southern pier to prevent the jellyfish from reaching the LNG Unit 15, which led to the continuation of the work of the unit, and the non-stop supply of liquefied natural gas during the current season.

Acid Gas Exhaust Unit

Mina Abdullah Refinery (MAB)

During the fiscal year 2018/2019, the crude oil feedstock averaged 270.6 MBPD compared to 270.7 MBPD during the past fiscal year. Refined crude oil this year totaled 98.77 million barrels which is almost equivalent to 98.8 MMB during the fiscal year 2017/2018.

Total exported petroleum products amounted to approximately 9,797.6 thousand metric tons from the Sea Island, in addition to about 551.0 thousand metric tons of petroleum Coker from Shuaiba Commercial Port, as well as about 472.5 thousand metric tons belonging to Petroleum Coke Industries Company «PCIC» were transported in trucks. Furthermore, Kuwait Paraxylene Production Co. was also supplied with approximately 2,790.7 thousand metric tons of Naphtha.

MAB Outstanding Achievements

- Work on the Clean Fuels Project "CFP" continued nearing the date of operation thereof. CFP service units have been inaugurated and are working excellent in preparation for the inauguration of the entire project units, and it is also expected to inaugurate the Diesel Unit (Hydro Thermal Upgrading " HTU-216") in the next fiscal year.
- Completion of major maintenance for the units of Naphtha (HTU-17), Delayed Coker (20-I & 20-II), Hydrogen (18-II) and Kerosene (HTU-15).
- On-line collection of Solomon study information using the PERAL system, saving a lot of effort and time.
- Supplying Kuwait Paraselene Production Co. with all required amount of Naphtha.
- Improving the quality of finished products while reducing non-conforming products from $ 3 million - as scheduled - to $ 0.2 million, which is half less than last year.
- The refinery applied successfully the Cost Optimization & Profit Improvement (COPI) program. An example was effecting modification to HCR-14 to enhance the production of Aviation Turbine Kerosene "ATK Merox" so as to meet the growing demand for this product. Production rates of naphtha, diesel and LPG were also upgraded in line with the global prices fluctuations thereof. Moreover, lean gas was also utilized as a fuel in several production units so that energy consumption may be saved.
- Maintenance of the ARDS -12 and the Hydrogen Production Unit (18) were completed successfully, approximately 14 days ahead of schedule for Unit (18). This achievement has been made by national and refinery staff after the external consultant has been laid off, thus saving two and a half days for Unit 12, and achieving financial savings estimated at about $ 3 million out of the total estimated maintenance cost of the two units.
- Mina Abdullah Refinery Operations Department, in collaboration with the rest of refinery departments, succeeded in transferring the screens of local control rooms systems to the new central control building, within 48 hours of continuous work without disrupting the work of the refinery or shutting down any processing unit. The CFP's new central control building comprises state-of-the-art control systems and, thus enhances communication between control room personnel, especially in emergencies.

Gas Liquefaction

Production of Both Refineries

Net petroleum products in both refineries during the fiscal year 2018/2019 totaled 34.5 million metric tons compared to 32.9 million metric tons in 2017/2018 showing an increase.

The following table shows the daily averages of the petroleum products in both refineries, compared to those in the previous year:

Product	Annual production 2018/2019		Annual production 2017/2018	
	X000 MT	%	X000 MT	%
Naphtha/Cars Gasoline/Reformat	7,352.5	21.0	7,314.6	21.7
Kerosene/ATK	6,899.1	19.7	6,435.5	19.1
Gas oil/Diesel	8,750.1	25.0	8,534.9	25.3
Fuel oil/Residue	8,370.6	23.9	7,813.8	23.1
Other products*	3,097.7	8.8	2,780.4	8.2
Total net products	34,470.0	98.4	32,879.2	97.4
Consumption/loss	585.9	1.6	881.6	2.6
Total	35,055.9	100	33,760.8	100

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

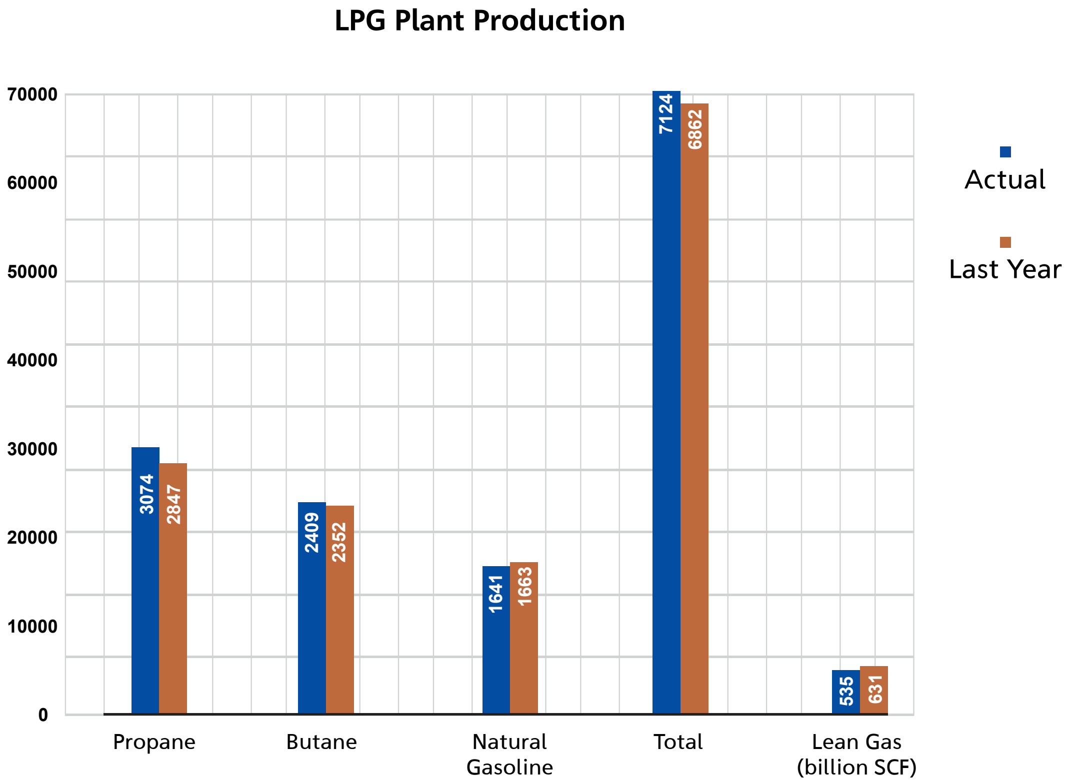
Gas Liquefaction

Feedstock of LPG plant in this FY totaled 1,799.2 MMSCFD compared to 1,662 MMSCFD in the previous FY. This average represents the actual amounts produced from the oil fields and KNPC refineries.

The following table shows a breakdown of the LPG plant production in 2018/2019:

Product	Annual production 2018/2019		Annual production 2017/2018	
	X000 MT	%	X000 MT	%
Propane	3,074	43.2	2,847	41.5
Butane	2,409	33.8	2,352	34.3
Natural Gasoline	1,641	23	1,663	24.2
Total Liquid Products	7,124	100	6,862	100
Lean Gas (billion standard cubic feet)	535		631	

The following chart shows the quantities produced in 2018/2019:



Propane and butane exports reached approximately 5,252.1 thousand metric tons in 2018/2019 compared to 4,877.2 thousand metric tons in the previous FY showing an increase by 7.7%.

Kuwait Aviation Fueling Co. (KAFCO)

- Kuwait Aviation Fueling Co. (KAFCO) made net profits amounting to KD 18,308,020 during FY 2018/2019 compared to KD 20,018,236 million in FY 2017/2018 showing a decrease of KD 1,710,217.
- KAFCO sales of ATK (JP-8 & Jet A-1) increased during FY 2018/2019 totaling 956,961,456 liters compared to 953,891,646 liters during FY 2017/2018 showing a rise of 3,069,810 liters.
- The number of aircraft supplied with fuel JET A and JP-8 at Kuwait International Airport during FY 2018/2019 increased reaching 50,519 compared to 48,903 aircraft in the previous FY.
- An agreement was reached with Kuwait Airways under which KAFCO shall supply their aircraft with fuel at Colombo Airport (Sri Lanka). Another 5 contracts were signed with seven airliners at Kuwait International Airport to supply their aircraft with fuel.
- Designing and commissioning "Fuel Hydrant System" were completed to supply aircraft on the gates of Terminal 4 and Jazeera Airways Terminal with fuel. Expansion of aircraft parking apron through 13 gates at Kuwait International Airport has been completed. Designing and manufacturing a testing device for insulating valves of this system were also completed.

KAFCO Headquarter Building


Fuel Supply Vehicles at Kuwait International Airport


شركة البترول الوطنية الكويتية

Chapter Two

Local Marketing

To meet the future fuel needs of the local market resulting from the growing population in the country and the associated expansion of construction, the company developed a comprehensive plan to build 99 new filling stations, in accordance with the latest designs and modern international technologies, reflecting a distinct and sophisticated appearance.

The company has taken into account the provision of many services and facilities in these stations. Added thereto is the application of the concept of renewable and alternative energy and the use of environmentally friendly technology. These stations will be built in five groups in the coming years.

Local Marketing Sales

Local Marketing sales during the fiscal year 2018/2019 exceeded, in general, the sales of FY 2017/2018. The data included herein details the sales in FY 2018/2019 compared to the forecast sales and the actual sales in 2017/2018.

Local Marketing Sales (Million Liters)

Product	FY 2018/2019	FY 2017/2018	+/- compared with last year %
Gasoline Premium (91 Octane)	2,835.4	2,627.7	7.9
Gasoline Super (95 Octane)	1,615.0	1,683.8	(4.1)
Gasoline Super (98 Octane)	49.3	50.8	(3.1)
Gasoline Euro 4	0.05	0.05	0.0
Total gasoline sales (cars)	4,499.8	4,362.3	3.1
Kerosene	169.1	158.0	7.1
Gas oil (local market)	2,183.0	2,038.1	7.1
Gas oil Euro 4	0.04	0.02	0.0
Total Fuel sales to local market	6,851.9	6,558.4	4.5
Gas oil to MEW	618.1	711.1	(13.1)
Heavy fuel oil to MEW	6,089.4	6,694.6	(9.0)
Total sales to MEW	6,707.4	7,405.7	(9.4)
Total fuel sales	13,559.3	13,964.0	(2.9)
Bitumen (Metric Ton)	229,654.0	147,593.0	55.6

Development of Local Marketing Sales

Sales of premium gasoline (91 octane) increased over the last two years at the expense of super gasoline (95 octane). This is due to the increase in gasoline prices since September 2016. Gas oil sales to the local market have increased, and the total sales to the Ministry of Electricity & Water have declined consecutively over the last three years.

Sales Development from 2014/2015 to 2018/2019 (Million Liters)

Product	2019/18	2018/17	2017/16	2016/15	2015/14
Gasoline Prem. (91 Octane)	2,835.4	2,627.7	1,663.3	731,4	722,0
Gasoline Super (95 Octane)	1,615.0	1,683.8	2,418.3	3,356,6	3,233.2
Gasoline Super (98 Octane)	49.3	50.8	68.6	97,1	94.3
Gasoline Euro 4	0.05	0.05	0.03	0,1	0.1
Total gasoline sales (cars)	4,499.8	4,362.3	4,150.0	4,185,2	4,049.5
Kerosene	169.1	158.0	141.0	85,1	87.8
Gas oil (local market)	2,183.0	2,038.1	1,823.0	1,761,9	1,662.6
Gas oil Euro 4	0.04	0.02	0,0	0,0	0,0
Total Fuel sales to local market	6,851.9	6,558.4	6,114.0	6,032.0	5,800.0
Gas oil to MEW	618.1	711.1	1,061.3	1,189.3	1,836.7
Heavy fuel oil to MEW	6,089.4	6,694.6	7,097.8	7,157.0	5,710.1
Total sales to MEW	6,707.4	7,405.7	8,159.1	8,346.3	7,546.8
Total fuel sales	13,559.3	13,964.0	14,273.1	14,378.5	13,346.8
Bitumen (Metric Ton)	229,654.0	147,593	112,877	95,359	102,149

Filling Stations

The operating filling stations owned by KNPC totaled 43 in addition to another 4 mobile stations which meant to serve the areas where no filling stations are available.

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

The only vehicle washing station, located in Bayan, is still operating. However, the company endeavors to upgrade and develop the services rendered to the customers aiming at increasing customer satisfaction. KNPC took a qualitative step towards furnishing the stations with mini markets, automotive washing and service units as well as building spare parts shops and installing Automated Teller Machines (ATMs) in several stations owned by the company.

To meet the future fuel needs of the local market resulting from the growing population in the country and the associated expansion of construction, the company developed a comprehensive plan to build 99 new filling stations, in accordance with the latest designs and modern international technologies, reflecting a distinct and sophisticated appearance. The company has taken into account the provision of many support services and facilities in these stations (mini markets, car service, … etc.). Added thereto is the application of the concept of renewable and alternative energy and the use of environmentally friendly technology. These stations will be built in five groups in the coming years.

As part of the first phase of the plan, the company has made significant progress in the construction of 18 new stations after 60% of the project has been completed. These stations are expected to be launched in September 2019.

A feasibility study and preliminary engineering designs for the construction of 15 new filling stations were also completed, representing the second group of such stations. The required approvals are being obtained from Kuwait Municipality.

A tender for conducting feasibility studies and preliminary engineering designs for the third group, including the construction of 25 new filling stations, was initiated.

The new stations will be constructed according to the modern designs which highlight the company's vision and interests in the best HSE standards since these new stations are designed to use alternative energy and will be provided with solar panels, reflecting the company's commitment to minimize the operations' impact on the environment.

Mobile Filling Station

Filling Stations Under Construction

	Station No.	Location
	Southern Area Stations	
1	Station No. 133	Al-Wafra – Block 66
2	Station No. 138	Sabah Al-Ahmed Town – Block B4
3	Station No. 139	Sabah Al-Ahmed Town – Block D2
4	Station No. 140	Sabah Al-Ahmed Town – Block A1
5	Station No. 141	Sabah Al-Ahmed Town – Block E4
6	Station No. 142	Sabah Al-Ahmed Town – Block C
7	Station No. 143	Sabah Al-Ahmed Town – Investment Area
8	Station No. 144	Sabah Al-Ahmed Town – Investment Area
9	Station No. 145	Sabah Al-Ahmed Town – Industrial Area
10	Station No. 149	Sabah Al-Ahmed Town – Zone 5
	Northern Area Stations	
1	Station No. 130	Al-Abdali Farms – Block 4
2	Station No. 131	Saad A-Abdallah Block 8
3	Station No. 132	Saad A-Abdallah Block 10
4	Station No. 134	Jaber Al-Ahmed Town – Block A5
5	Station No. 136	Jaber Al-Ahmed Town – Block N2
6	Station No. 137	North West Sulaibikhat – Block 2
7	Station No. 146	Jaber Al-Ahmed Town – Block N1
8	Station No. 148	Jaber Al-Ahmed Town – Service Road No. 2

New Pumps

New Future Designs for Filling Stations under Construction

Chapter Three

Capital Projects

Clean Fuels Project (CFP) is one of the most important and Mega 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 refining industrial countries worldwide.

The company will produce environmentally friendly petroleum products that meet the requirements of European and North American countries, such as Euro 4 and Euro 5, which will enhance the marketing share of local petroleum products in international markets and create an added value to Kuwaiti oil.

KNPC is carrying out several mega projects of which the most important is the Clean Fuels Project (CFP) whose aim is to upgrade both MAA and MAB refineries and extend their productive capacities. These projects are a basic part of the company's goals in doing its best to update and develop its potentials, improve its products, achieve high level of safe and operational reliability, and thus enhancing its capabilities towards preventing accidents and minimizing environmental damage. The company aims to create jobs for the national labor force, promote and encourage economic development, and create an added value to the oil wealth by converting low-value products into higher quality high-value products.

Clean Fuels Project (CFP)

KNPC is executing the Clean Fuels Project (CFP) which is one of the most important and Mega 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 refining industry leaders worldwide. The company will produce environmentally friendly petroleum products that meet the requirements of European and North American countries, such as Euro 4 and Euro 5, which will enhance the marketing share of local petroleum products for the State of Kuwait in the international markets and create an added value to Kuwaiti oil. CFP's completion rate reached up to 97.8% as of March 31, 2019.

This Project aims to:

- Upgrade the total refining capacity of MAB and MAA, whereas that of MAA is to reach 346,000 barrels per day, and MAB 454,000 bpd. The total capacit of both refineries will be 800,000 bpd.
- Link both refineries together to become an integral downstream complex whose flexible aspect provides KNPC with the ability to meet the ever-changing demand by the international and local markets for top quality and different petroleum products.
- Improve the two refineries' performance and raise the levels of operational reliability and safety, with optimal utilization of energy.

Clean Fuels Project (CFP)

Gas Train Project - 5

Gas Train – 5 Project for Producing LPG

The scope of project is executing a Gas Train – 5 Project for producing LPG at MAA for accommodating and treating the surplus anticipated when producing gas and condensates from the refineries and Kuwaiti oil fields. Production capacity of the Gas Train – 5 Project will be 805 MMSCFD of gas and 106 MBPD of condensates. The project also includes constructing a new combined unit for treating fuel gas for both gas train projects 4 & 5 at the refinery. Upon completing the project, the total capacity for the five gas trains of KNPC will be 3.263 billion SCFD.

The project value is KD 428 million and is scheduled to be completed in March 2021.

Constructing New and Upgrading Existing Facilities for Handling Sulfur 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 new and upgrading existing facilities for handling sulfur in MAA in order to upgrade its capacity and loading average 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 Environment Public Authority (EPA). The project includes the construction of liquid sulfur tanks and units to convert sulfur into granules.

Carrying out the first part of the project, the construction of new facilities, has been completed and has commenced operation. While the work continues in the second part, namely revamping and upgrading of existing facilities, whereas the completion rate reached 94.52%.The current facilities are expected to be operational in December 2019. The budget approved for the execution of the project is KD 210 million.

Liquid Sulfur Treating Facilities Project Produced by KOC

KNPC is executing this project as per KPC directives and in agreement with KOC. It aims at constructing Liquid Sulfur Treating Facilities at MAA with a capacity totaling 1,000 tons of the liquid sulfur daily.

The project also includes procurement 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 unit for producing sulfur granules. The project planned target budget is approx. KD 30.9 million and scheduled to be completed in January 2020.

Expanding & Upgrading MAA Depot

This project comes effect the recommendations of the study on the future expectations of strategic demand for products in the local market until 2030 and will meet the needs of the local market of products until 2030 in several phases, where this project is the first phase thereof. The project includes the construction of tanks for oil derivatives, loading arms and support services facilities at a cost of KD 75.670 million. All mechanical works have been completed, and the new facilities are being prepared for commissioning.

Upgrading Delayed Coker Unit (DCU) No 20 at MAB

This project aims to maintain the current operational average 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 addressing any deficiencies in maintenance cycles, reliability and mechanical availability of equipment, as well as the application of certain industrial criteria pertaining to safety and operations.

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

Study for Constructing Crude Oil Distillation Unit (CDU) & Bitumen Production Unit

The implementation of this project is part of the 2040 strategic directions for the refining, marketing and petrochemical sector in KPC, to ensure meeting the future bitumen needs of the domestic market.

The project aims to enhance the ability to produce more than one type of bitumen that conforms to the needs and specifications of the Ministry of Public Works in addition to increasing the reliability and reducing the interruption of the necessary production, in order to supply the local market continuously and steadily, and advance the standards of operational safety and quality control.

This project includes the construction of a crude oil distillation unit with a capacity of 55,000 barrels per day, capable of processing three different types of crude oil, namely Kuwait Export Crude "KEC" , West Kuwait Oil and Kuwait Heavy Crude Oil. The new unit will produce two grades of bitumen (PEN 60/70 and MC-70) to meet the different asphalt paving requirements, and a new self-filling station with larger capacity will be built.

After reviewing and updating the study of the demand forecast for bitumen in the local market, preliminary engineering designs are currently being studied for the project.

Enhancing Availability of Northern Pier to Facilitate Oil Export Operations at MAA

The project's scope of work includes the necessary repairs and renovations of the oil pier, main bridge and auxiliary facilities at MAA, to rehabilitate the northern pier to ensure the continuation of export of crude oil and petroleum products until December 2030. Engineering, procurement and construction contract has been signed and scheduled to commence in June 2019. The estimated budget for this project is KD 7.3 million.

Replacing Old Substations at MAA

The project aims to replace nine of the old substations at MAA with new ones with higher capacity and high-tech, inside new explosion-proof buildings, and to improve the safety and operational efficiency of electrical stations, and enhance the degree of equipment availability, through the installation of equipment, protection systems and electrical control with modern technology to enhance the efficiency of the electrical system. These plants will contribute to enhancing the operations and distribution of loads during emergencies in the event of a power outage, in line with the safety conditions of the refinery, according to the latest quantitative risk assessment report.

The estimated budget for the project (KD 88.7 million) is approved in addition to preparing the tender documents which are currently in the process of obtaining the approvals of the relevant committees. The tender is expected to be floated in May 2019, whereas the project is to be launched in January 2024.

Bitumen Production Unit

Chapter Four

Health, Safety and Environment (HSE)

In line with HH The Amir's vision to provide 15% of Kuwait's energy consumption from renewable energy sources by 2030, and according to the directives of KPC to pursue this trend in the oil sector by 2020, and given the special nature of work in the oil industry where energy consumption is expected to increase by 200% over the forthcoming four years, the company has started the Al-Dibdiba Solar Power project with a capacity of 1,500 MW.

KNPC is keen to ensure the safety of its employees, and makes continuous efforts to ensure that its operations do not cause any harm to the population neighboring the facilities of the company or residents in Kuwait in general, and it is always working to reduce emissions and the environmental impact of its operations. HSE issues are a top priority and a key pillar of the company's strategy, vision and values. Therefore, it focuses on the application of the rules and standards of health, safety and environment in its various facilities, projects and operations, as it has a direct impact on the safety of facilities and installations and to improve reliability and achieve production goals, in addition to maintaining the image of the leading company in the protection of the community and the environment around them. Some of the highlights of the company in terms of health, safety and environment during the year 2018/2019 are:

- As the cornerstone of achieving excellence, the company continues to implement the program «Improving the culture of health, safety and environment», which aims to support the positive culture, and develop solutions to improve the culture of health, safety and environment, and the development of an effective implementation plan for these solutions, combined with training and practice, in order to enhance the effectiveness and performance of employees .

The vision of the program is to demonstrate HSE culture which is based on effective care, attention, openness and honesty with the belief that all company employees and contractors have the conviction and ability to achieve higher performance in the areas of HSE culture.

- The company organized the 12th Annual HSE 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 participation in upgrading the health, safety and environment levels.

12th KNPC Annual HSE Performance Award

- Integrated Management System (IMS) of KNPC was constantly audited to ensure all conditions prescribed by the system are met, and to continue holding ISO certification by Quality Assurance System (ISO 9001:2015), Occupational Health & Safety Assessment Series (OHSAS 18001:2007) and Environment Management System (ISO 14001:2015). This year, IMS was audited by TUV Nord and the findings proved again its compliance with the highest international standards pertaining to health, safety and environment management.
- The company presented a technical paper entitled "Sustainability in KNPC" at the Kuwait International Health, Safety, Security and Environment Conference (KIHSSE) held in February 2019.
- The company organized a large-scale HSE event in February 2019 titled 'Think Sustainable' to encourage and reward innovation and creativity ideas for sustainability in relation to environmental resources in Kuwait. CEO of KNPC opened the event and it was attended by more than 500 participants including academics, research institutions, students, NGOs and employees of KPC subsidiaries.

HEALTH

- The company organized an Occupational Health Day for contractors working in the CFP, where free examining/testing services and medical guidance were provided. The Day included routine tests to measure weight, height, pressure, pulse, diabetes, cholesterol and hemoglobin to ensure the good health of the contractors workforce, which gives a boost to the company's major projects and strengthening the relationship between the company and its partners.
- The new building of the respiratory apparatus servicing and maintenance workshop was inaugurated at Mina Abdullah Refinery. This workshop will provide the refinery with respirators for use in emergency and exceptional situations, and when the production units are shut down for maintenance.
- In order to spread health awareness and a full understanding of the public health culture, the Department of Health, Safety and Environment organized several health campaigns for the company's employees on healthy lifestyle and breast cancer.
- Under the banner "Family and Diabetes" and the World Diabetes Day, the company's Medical Division launched a health awareness program on diabetes and prevention. Today's activities included a lecture and a medical exhibition that included exclusive discounts on medical and health equipment and supplies.
- Medical Division at HSE Department organized eight blood donation campaigns in different locations in collaboration with the Central Blood Bank of Kuwait. The Ministry of Health honored the company for winning the third place in Kuwait among the top ten blood donors in the past year.
- The company organized a three-day health exhibition in its main building. This came as part of the company's concern for the health of its employees, as well as to encourage private medical institutions to provide their services to the company's employees, and thus benefit everyone. The exhibition offered its visitors free health consultations, special offers and discounts in several therapeutic areas, and included analyses and tests for kidney, liver and other diseases.
- As part of the activities aimed at promoting health awareness among employees, the CC Department organized a lecture titled "Facts and Rumors in Therapeutic and Sports Nutrition".

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SAFETY

- In order to spread awareness and a full understanding of safe working culture and safety requirements, the Department of Health, Safety and Environment organized monthly awareness campaigns, lectures and messages for all employees related to daily household hazards, working in high places, driving safely in the CFP area, personal safety equipment, excavation safety and drilling work.
- The company carried out fire-fighting training programs for the company and contractor's employees using some of the facilities equipped in the Main Support & Emergency Operations Center (MSEOC). 690 KNPC and 5,600 contractors' employees followed fire-fighting training courses. Eleven "National Fire Protection Association"-accredited training courses, in which 134 firefighters were trained on pump operation at (MSEOC).

As part of the competence fostering program for the staff of the Security and Fire Department, a number of firefighters were trained in the following professional programs:

- 16 accredited firefighters
- 27 employees on the accredited fire officer program
- 150 employees over 16 courses on pump operation
- 287 rescuers over 44 courses

- The Security and Fire Department organized three awareness campaigns for all employees of the company and the contractor about fire, traffic and security.
- The graduation of 27 assistant fire officers at the company after passing a seven-month course, organized by the British Fire Service College in the United Kingdom, during which they received lectures, theoretical and practical training, aimed at the overall development of their skills on the latest international fire-fighting techniques. Accordingly, the participants were promoted from the rank of "Fire Guide" to the rank of "Assistant Fire Officer" and accredited according to international systems specialized in fire and miscellaneous accidents. This course is one of the global specialized courses, which contribute to progressing firefighters to leaders in their field, and enable them to deal with accidents, and manage them in an orderly and successful manner with minimal losses.
- In order to strengthen the company's role in the field of security and firefighting, Fire & Security Depart has undertaken several initiatives and projects, including:
  - Two mobile vehicles (MVs) for detecting explosives were purchased and deployed in the control gates of the company's refineries
  - Twenty Two (22) emergency response devices and new equipment were purchased to enhance emergency response capacity at the company's refineries, Main Support & Emergency Operations Center (MSEOC) and KAFCO
  - Commenced procurement procedures for 23 state-of-the-art fire engines, including special fire extinguishers to support the fire-fighting fleet at various locations at the company
  - Commenced procedures for supplying various fire-fighting equipment, including a thermal imaging camera that has already been received, as well as procurement procedures for 4 sets of hydraulic rescue tools.
- The company participated in a number of modern fire engines in the 17th Firefighter Day organized by Kuwait Fire Service Directorate (KFSD), under the slogan «Protecting Children is Our Responsibility». Fire Officer Chiefs in the Security and Fire Department were responsible

Firefighters Graduation upon Passing a Training Course in Britain

for explaining the nature of the work of the fire teams and the duties of the firefighter in the company. CCD also participated in distributing awareness publications.

- In line with KPC's 2040 strategy for HSE, the HSE Department organized a meeting on the latest technology applied in a drone company, with the aim of reaching the best developmental and innovative solutions and applying modern technological methods to ensure the safe fulfilment of our operations with high efficiency and low cost. We have also coordinated with Zain Technology Solutions to take advantage of the latest technology solutions in the areas of health, safety, environment, maintenance, inspection and corrosion, which exceed 13 new applications.
- The new "Work Permit System" was introduced on November 1, 2018 after reviewing and developing the system in place. The development of this system is a major step towards simplifying and a better understanding of the risks that may be associated with the various operations carried out by the company, with a view to safe operation. The advanced system helps reduce the number of work permits that depend on the presence of a team to conduct a risk assessment process to make it more effective, and the use of the checklist when carrying out the work of medium risk.
- HSE Department, together with the Local Marketing and CC Departments, organized an awareness campaign at the company's filling stations, aimed to raise the safety awareness of the customers at these stations, by participating in a questionnaire submitted by the filling stations section to its customers while fueling their cars. Awareness brochures and leaflets were distributed.
- The company participated in the field exercise conducted by KPC and subsidiaries, as part of assessing the promptness to face accidents and confirm the procedures validity to deal with the crises that the sector may be exposed to. The firefighting team and the medical team at Mina Al-Ahmadi Refinery, the Ministry of Interior, Kuwait Fire Service Directorate (KFSD), The General Administration of Customs, Ministry of Health, Environment Public Authority (EPA), Ministry of Electricity and Water, Public Authority for Industry, Kuwait Oil Company and EQUATE participated in the exercise.
- In February 2019, the company participated in Shamil-5 joint training at Camp Arifjan, where the training scenario included emergencies resulting from natural disasters such as earthquakes.

More than 15 organizations, including KOC, Kuwait Institute for Scientific Research (KISR), (KFSD), (EPA) and Ministry of Health participated in the training.

- HSE Department organized a lecture about the lessons learned from the fire accident of a refinery belonging to the British company «BP» in Texas, USA years ago. The lecture, which was attended by a number of team leaders and refinery staff, aimed to gain experience from pondering these incidents, and considering the procedures followed, in order to avoid the occurrence of similar incidents in the company's facilities.

ENVIRONMENT

- The Environment Division participated in "Kuwait Summit on Sustainable Energy and Technology'' in April 2018, held under the auspices of the Ministry of Electricity and Water in Kuwait, and focused on the development agenda in the State of Kuwait to diversify energy resources and address climate change. Environment Team Leader at KNPC Musaed Salman presented a case study on KNPC's solar energy initiatives, including Al-Dibdiba Solar project.

'Plant a Tree' Campaign

- KNPC representative attended the Bonn Climate Change Conference in April 2018 as part of the Kuwait team, and participated in the discussion of Article 6 (Carbon Market) of the Paris Agreement, where KPC set 3 strategic goals on greenhouse gases, and everything related to the impact on greenhouse gas regulations in the future.
- In order to promote environmental awareness among employees, HSE Department organized an awareness lecture on climate change and its impact on the State of Kuwait. The lectures dealt with several topics on the phenomenon of climate change, the extent of Kuwait's contribution to this global phenomenon, the effects of climate change on Kuwait, and the efforts of the Environment Public Authority in the management of this issue locally and globally. Another lecture was organized to raise awareness about the Environmental Protection Law No. 42/2014 and its by-laws.
- 'Plant a Tree' campaign was organized in the company's main building in October 2018 to promote environmental and wildlife awareness. A number of school students participated in the agricultural workshop held in the main building to cultivate and promote interest in the environment. It also held awareness sessions in which specialists from EPA and the Public Authority for Agriculture Affairs & Fish Resources spoke.
- HSE Department participated in the “Green Jabriya 2” event alongside EPA, Jabriya Co-operative Society, and many volunteer teams and individuals. The Department has supported the project with a number of seedlings of Sidr, in order to encourage environmental initiatives aimed at the environment preservation and upgrading.
- The company implements several projects aimed at reducing the environmental impact of its operations and enhancing energy efficiency. Among these projects is the construction of a new Acid Gas Recovery Project (AGRP) and the rehabilitation of the existing unit at Mina Al-Ahmadi Refinery, mainly to halt the emission of sulfur oxides and to benefit economically from sulfur by exporting it abroad. The new unit is expected to be completed in December 2019. Projects currently under way or in the planning phase include:

Executing 2nd Phase of the Developed Vapor Recovery Unit in Filling Stations

The project, which includes the supply, installation and commissioning of vapor recovery pumps (during refueling) at the company's fuel stations, has been completed with the aim of reducing the emission of hydrocarbon vapors from the pumps, thereby reducing exposure to volatile organic compounds (VOCs) while refueling vehicles. These vapors are recovered and restored in the station reservoir. This project complements a similar project implemented at Ahmadi and Sabhan depots.

Solar Energy Projects in KNPC Facilities

In line with HH The Amir's vision to provide 15% of Kuwait's energy consumption from renewable energy sources by 2030, and according to KPC directives to pursue this trend in the oil sector by 2020, and given the special nature of work in the oil industry where energy consumption is expected to increase by 200% over the forthcoming four years, the company has undertaken several studies and initiatives on the use of solar energy to produce electricity, as follows:

- The company led a joint team from KPC and K-companies to supervise the feasibility study for Al-Dibdiba Solar Power project with a capacity of 1,500 MW inside Al-Shaqaya Renewable Energy Complex, 100 km west of Kuwait City, at an estimated cost of KD 520 million. The project tender was floated, preliminary meetings with potential contractors were held, and field visits were paid to the project area in Shaqaya. The project will be financed by borrowing from local banks, and accordingly, a financing negotiation committee has already been formed.

- A project to install solar panels at 10 filling stations at a cost of KD 700,000 is underway and expected to be completed in December 2019.
- The company will introduce the concept of renewable energy in its project to build 99 new gas stations in various areas of Kuwait.

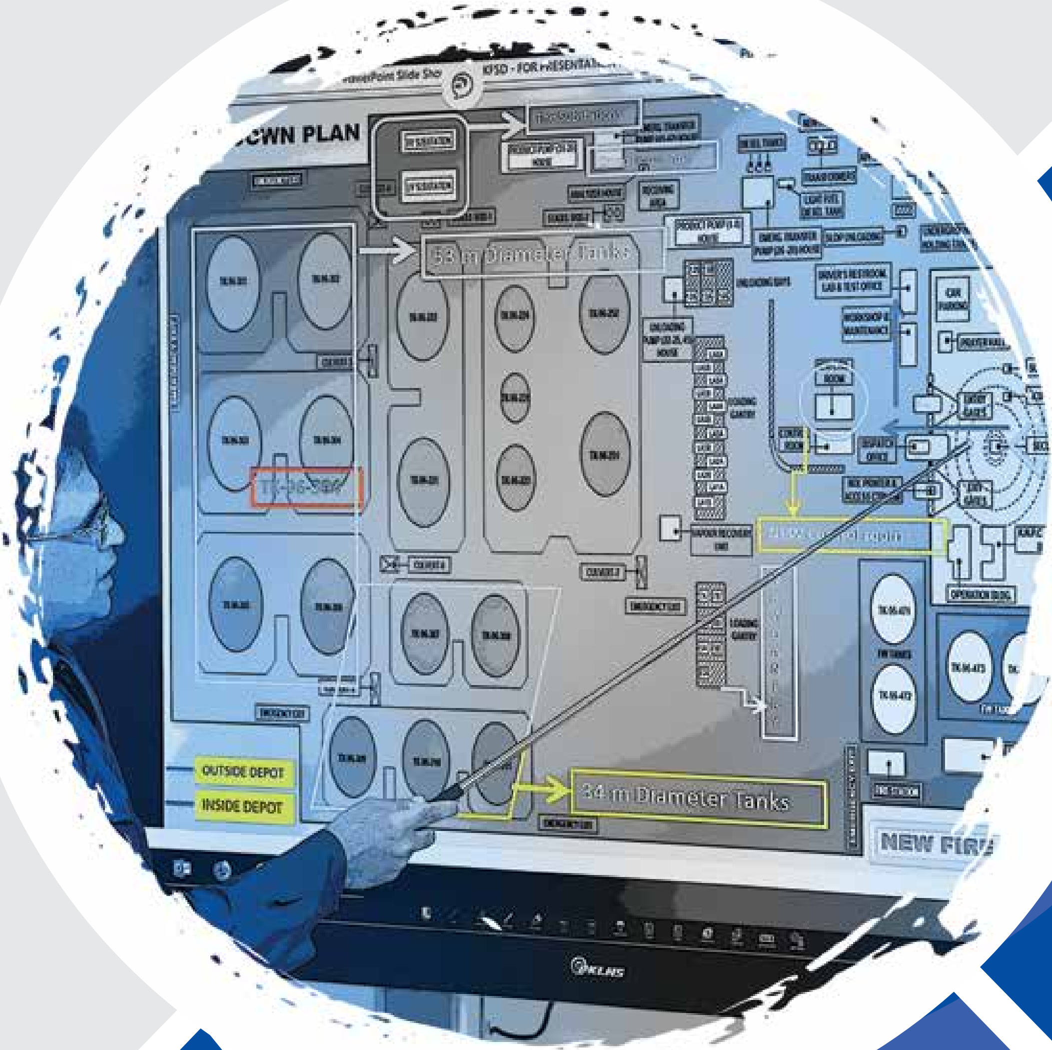
Kuwait Aviation Fueling Co. (KAFCO)

- KAFCO received the 2018 ROSPA Gold Health and Safety Performance Award
- This FY was free of all types of accidents (personal accidents, fire, fuel spills, etc.)
- The company conducted three mock fire drills with the participation of the airport-related entities in various locations.
- Signing the security agreement with Kuwait National Petroleum Company to manage the Security and Fire Department therein.
- The company organized a number of awareness campaigns in the field of health, safety and environment such as:
  - Vaccination campaign against winter diseases
  - Fire-fighting campaign using fire extinguishers
  - (Beat the Heat) Campaign which is pertaining to work during the summer
  - (Near-miss Incidents) Reporting Campaign
  - Environmental conservation campaign

Drill on Mock Evacuation

Launching "Think Sustainable" Event

Safety Campaign at Filling Stations


53 m Diameter Tanks
OUTSIDE DEPOT
INSIDE DEPOT
34 m Diameter Tanks

Chapter Five

Achievements & Performance Improvement Initiatives

In line with KPC's long-term strategic plan 2040, which focuses in part on creating Research & Development (R&D) and Technology Management opportunities to overcome the strategic challenges facing KPC and the oil sector, the R&D Strategy and Technology Management of the refining industry has been successfully launched.

As a result, 26 R&D projects were identified based on four research and technology issues.

- An "Innovation Team" was established to enhance creativity in KNPC culture 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 Team shall review and embrace the creative ideas introduced by the company's employees and to consider the possibility of implementing them in the company so as to save a competitive characteristic in the oil and gas industry locally and globally and to push forward the growth process very efficiently.
- In line with KPC's long-term strategic plan 2040, which focuses in part on creating research & development and technology management opportunities to overcome the strategic challenges facing KPC and the oil sector, the R&D Strategy and technology management of the refining industry has been successfully launched. As a result, 26 R&D projects were identified based on the following four research and technology issues, namely processing, catalysts, refinery safety and HSE which will be followed up during FY 2019/2020 to FY 2021/2022 gradually.
- Cost Optimization & Profit Improvement (COPI) Committee continued its works where 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. $ 443.2 million as of the end of February 2019.
- Manufacturing Optimization Group (MOG) organized a workshop aiming to optimize cost and improve profit in various operational areas, during which the opportunities for increasing profit associated with the post-operation of the Clean Fuels Project were reviewed.
- The "Energy Conservation" campaign team was formed in the company, chaired by the Manager of Information Technology Depart and a group of leaders of electricity and air conditioning maintenance teams in the company's refineries and Local Marketing Department, in addition to the Team Leader of the Customer Management and a representative of CCD. Workshops were held to consolidate the culture of rationalization and economy by consuming the country's natural and industrial resources. Detailed data and information on energy consumption were collected in the form of periodic reports every three months throughout the year to determine the economic savings resulting from energy conservation.

Honoring a Hackathon team

- The idea of "Smart Building" has been mainstreamed throughout the company and achieved savings of up to 35 MW per day due to the use of thermal insulation and steam turbines.
- The company has signed a contract with Agility Public Warehousing Company, amounting to KD 6.5 million, under which the latter will provide special management services for all warehouses of the company for a period of five years. Agility has extensive experience in providing logistics services, particularly transportation and management of materials and spare parts. One of the priorities of the contract is to support the company's operations by providing effective management to supply spare parts for operation and maintenance without delay, and to meet the requirements of other support departments in the company. The efforts of the Commercial Department during the negotiations culminated in saving KD 960 thousand of the value of this contract.
- KNPC renewed the memo of understanding with Shell and Criterion for research and technology. KNPC CEO praised the vital role played by this memo and its active contribution in finding advanced solutions to the challenges facing the operations of refineries. The agreement includes implementing studies related to research and development in the use of catalysts in refining processes, and to boost the operational efficiency of current and future units.
- The two CFP insurance policies (contractors all risks and civil liability insurance policy) were extended to the end of 2019, whereas the company received a 10% discount on insurance premiums, resulting in savings of KD 250,000.
- The Local Marketing Depart opened a mini market at the company's Doha Gas Station No. (35), which is the first market to be opened out of five similar markets invested by Trolley General Trading Company in the stations of the company (Doha, Al-Ghazali Street, Jaber Stadium, Waha and Siddiq), according to an auction launched to provide supermarket services. The company will provide ATM and car wash services in some of its existing stations, in addition to investing other sites within the project of establishing 18 new stations, in order to complete its series to diversify the public services in its stations throughout Kuwait.
- The services at the company's filling stations were improved, where the electronic payment service has been activated through smart phones and civil ID card in collaboration with NBK. Ultra gasoline service was added to two stations while premium gasoline from 4 to 6 points in 3 stations.
- The company has launched a Contractor Performance Evaluation System, (CPES) in cooperation between the departments of «Information Technology» and «Management Support». The system aims to automate the evaluation of the performance of contractors fulfilling company's contracts, where the previous program has been fully updated, and linked to the Maximo systems and human resources. It also has the advantage of sending periodic alerts to the relevant departments of the company on the need to evaluate the contractor during the contract period.

Prizes Awarded to KNPC

- The company has made remarkable achievements with four affiliated sites receiving four prestigious international awards in the field of occupational health and safety, namely, Mina Al-Ahmadi Refinery, Mina Abdullah Refinery, Local Marketing Department, and the Head Office, which were awarded the British Safety Council Merit Award 2018. This award is one of the most important accredited awards at the international level. The award committee commended the company's efforts and commitment to international standards and requirements in this area, and its keenness to apply the rules of health and safety in various projects and operations.

- Mina Abdullah Refinery and the Head Office were awarded the British Royal Society for the Prevention of Accidents (RoSPA) Gold Award for their outstanding performance in health and safety for 2018.
- Former CEO Mohamed Ghazi Al-Mutairi has been awarded the CEO of the Year award by Global Economist Magazine. This was done at a ceremony held in the British capital to honor people, companies, organizations and projects that have achieved an outstanding success in the energy industry in the world during 2018. Under his leadership, the company has achieved outstanding successes in operational performance and good financial results.
- The company ranked 3rd as the best national company employer in the world, through a survey conducted by the international magazine (Rigzone) which is specialized in oil and gas affairs, and this choice reflects the reputation that the company has gained both domestically and globally.
- The company attained a remarkable achievement by selecting one of its engineers (Engineer Ahmed Al-Awn - Senior Processing Engineer in the Technical Services Department) at Mina Al-Ahmadi Refinery as one of the best 6 engineers in the world, as part of the `` Most Promising Engineer of the Year 2018 '' Award presented by (Hydrocarbon Processing) International magazine specialized in the field of oil and gas. Eng. Dalal Al-Asousi from the Quality Assurance Department at Mina Al-Ahmadi Refinery fulfilled a remarkable achievement by obtaining the CMRP certificate from the Society of Maintenance and Accreditation Professionals in the United States of America, becoming the first Kuwaiti woman to receive such an international certificate.
- The company won the second place in the award of corporate excellence (silver award) for 2018, which is granted by the Gulf Association for Maintenance and Accreditation, at the 5th Middle East Maintenance and Accreditation Conference and Exhibition held in Bahrain. The

Honoring Eng. Dalal Al-Asousi for obtaining the Certificate in Certified Maintenance and Reliability Professional company achieved this position due to the implementation of the program «PRIME», as part of the award for institutions that have implemented the latest value-added programs in the field of maintenance, reliability, asset management, best practices and innovation. This award is open to all public and private companies in the Gulf. The selection criteria were based on five pillars, including risk reduction, cost optimization, performance development, revenue growth, manpower development and talent management.

- The company was awarded the «Deal of the Year» award by TXF, a global company specializing in trade, export, finance, fund management and financial risk, based in London. The company was awarded the prize for successfully completing financing CFP by international export credit agencies. The 'Deal of the Year' award is given to the most innovative financial deal, which has an impact on the market. According to the British company, the award goes to those innovative and mega projects, which contribute to the creation of real and stable economic markets. The financing deal for this project also won the 'Deal of the Year' award from the IJ World Awards.

- The Administration Building at Mina Abdullah Refinery received the Silver Certificate of Green Buildings for the category of existing buildings after the building passed the requirements of the Global Sustainability Assessment System successfully. This is the second achievement of the company after the Head Office received the gold certificate in 2017 as the first existing building in Kuwait to receive this certificate. The certification of these buildings demonstrates their commitment to high standards of environmental performance.

- Kuwait Aviation Fueling Co. (KAFCO) was awarded Gold Medal Prize by the Royal Society for Prevention of Accidents (RoSPA) for Health, Safety & Excellence (HSE 2018).


Certificates
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Chapter Six

Manpower, Training and Career Development

The company held and participated during the fiscal year in a large number of development courses, seminars, forums and local lectures on various topics related to the professional requirements of employees, in collaboration with local institutions, including the Petroleum Training Center of Kuwait Petroleum Corporation and international companies.

The number of local courses reached 385 courses catering for 4,188 employees, while the external courses reached 649 courses catering for 1,594 employees.

Manpower

- Operational and non-operational manpower in the company totaled 6,319 employees as at the end this FY. However, this figure shows an increase by 167 employees compared to the previous fiscal year without effecting any change to the budget.
- During the year, 385 new employees were recruited, 320 of whom were Kuwaitis.
- The number of Kuwaiti employees in the company at the end of the fiscal year reached 5,517 employees, representing 87.31% of the total workforce of the company, an increase of 158 Kuwaiti employees compared to the previous FY.
- During the fiscal year, the company tested and distributed 225 newly graduated engineers to work in KPC and affiliated oil companies, 85 of whom have worked for KNPC.
- 203 diploma holders (Refineries Technology and Chemical Industries) were recruited.

The following tables provide a breakdown of employees in the company according to their nationalities and departments, besides labor force growth from 2010/2011 to 2018/2019.

Breakdown of Employees Number and Percentages by Departments

Department	31/3/2018			31/3/2019		
	Employees Number	Kuwaiti Manpower		Employees Number	Kuwaiti Manpower	
		No.	%		No.	%
Head Office*	979	919	93.87	967	911	94.21
Local Marketing	299	292	97.66	303	297	98.02
Health, Safety & Environment	182	95	52.20	188	101	53.72
Security & Fire	849	842	99.18	826	821	99.39
Mina Abdullah Refinery	1,596	1,322	82.83	1,704	1,423	83.51
Mina Al-Ahmadi Refinery	2,246	1,888	84.06	2,330	1,963	84.25
Sub-Total	6,151	5,358	87.11	6,318	5,516	87.31
Prisoners of War (POW)	1	1	100	1	1	100
Sub-Total	1	1	100	1	1	100
Grand Total	6,152	5,359	87.11	6,319	5,517	87.31

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

Breakdown of KNPC Employees Distribution by Nationality

Nationality	Number of Employees			Percentage of Total Manpower		Percentage of Increase (Decrease) %
	31/3/2018	31/3/2019	Change	31/3/2018 %	31/3/2019 %	%
Kuwaitis	5,359	5,517	158	87.11	87.31	2.95
Other Arab Nationals	116	119	3	1.89	1.88	2.59
Sub-Total	5,475	5,636	161	89.00	89.19	2.94
Non-Arabs	677	683	6	11.00	10.81	0.89
Total	6,152	6,319	167	100	100	2.71

Manpower Numbers Growth at KNPC

2018/2019	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013	2011/2012	2010/2011
6,319	6,152	6,352	6,344	6,464	6,644	5,805	5,880	5,562

Internal Training Courses

Manpower at Kuwait Aviation Fueling Company (KAFCO)

Department	31/3/2018			31/3/2019		
	Employees Number	Kuwaiti Manpower		Employees Number	Kuwaiti Manpower	
		No.	%		No.	%
Gen. Manager's Office	4	4	100	7	7	100
Finance, Admin., Services	20	18	90	20	18	90
Ops, Eng., Maintenance	33	33	100	32	32	100
Total	57	55	96	59	57	96

Training & Career Development Department

During the fiscal year 2018/2019, the company held and participated in a large number of development courses, seminars and local lectures in various subjects related to the professional requirements of employees, in cooperation with local institutions including the Petroleum Training Center of Kuwait Petroleum Corporation and international companies. 4,188 employees participated in 385 local courses. External courses amounted to 649 courses catering for 1,594 employees. Several courses were also held at the Petroleum Training Center involving 4,306 employees.

A number of courses, seminars and lectures was held to develop qualified and motivated cadres, including:

- Rehabilitation and training of 201 students of the College of Technological Studies specializing in «Chemical Engineering Technology» - Diploma in order to fill the position of a «Field Operator» for the graduates of «Refinery Operation Technology» program at the Public Authority for Applied Education and Training (PAAET), of which 85 graduates to meet the need of CFP, 100 graduates to meet the needs of Mina Al-Ahmadi and Mina Abdullah refineries and 16 graduates to meet local marketing needs.
- Nine engineers have been trained in Japan at JXTG Nippon on the production and maintenance program. Training of 27 field operators in Korea for SK Energy in three groups and in the following programs:
  - Control Room Operator Program
  - Operation Staff Training Program
- "The KNPC Journey Towards Leadership Excellence" was implemented for the team leaders of KNPC and KAFCO, with a total of 147 team leaders.
- The internal training program was implemented for the personal leadership and group coaching program for the managers and team leaders of KNPC and KAFCO, with a total of 31 managers and149 team leaders.
- Within the Six Sigma Green Belt program, 20 employees participated in the fifth batch of the

program for two weeks, aiming to guide them towards the optimal use of this methodology which measures quality, improves work level, reduces defects, and evaluates work tasks and existing systems.

- The Training and Career Development Department concluded its three-day induction program for over 80 new recruits. The aim of the program is to provide the new employee with all the important laws and regulations of the company, in addition to the role of the company and its various stages of development, and the activities of the company and its refineries.
- A group of newly recruited employees from the various departments of the company attended a two-week training program in South Korea, which included a training camp to hone the skills of new employees and help them to perform their work tasks efficiently so as to achieve the company's vision and mission. This program included theoretical lectures, training workshops, and study of some successful Korean experiences, which contribute to the promotion of team work, the acquisition of time management skills, effective communication, and how to meet the challenges of work.
- The company continued organizing training courses for newly recruited and under-development employees in accordance with the agreement signed with Injaz Kuwait. The second training course was held at Beit Al Watania Club under the title «My path towards professionalism».
- A new batch of the company's newly recruited staff of 99 engineers who passed the S-OJT program. The company organized a special ceremony for the occasion attended by the CEO who stressed the importance of graduates to develop themselves in the various locations of the company, and urged them to focus on reading and increasing knowledge, especially in the field of oil industry.
- Holding a specialized technical program in the field of non-destructive test of Kuwaiti labor on the contractors' agreements numbering 20 trainees, on two levels for three weeks at the training center at Mina Abdullah Refinery. Trainees obtained international certification accredited in technical specialization.

Awareness Session for Senior Controllers

- Human Resources Department launched an awareness campaign to raise the level of awareness among all employees about their duties, obligations and rights in accordance with the valid regulations, rules and instructions. The campaign lasted a month in various locations of the company, and aimed to help employees understand and comprehend the penal list at the company and respond to their inquiries, ensuring a safe working environment and maintain the safety of employees and the facility.
- The Employee Development Division of the Training and Career Development Department organized a training program for a new group of senior controllers and senior engineers from all departments of the company at Ahmed Al Jaber Oil & Gas Exhibition. This is the second season of this program, which aims to develop the supervisory skills of senior engineers and controllers, and to build strong relationships between employees, in the service of the company's strategy, by recognizing the regulations governing its work. This program was attended by 100 senior controllers and senior engineers in three batches.
- Research and Technology Department organized an awareness workshop for employees of k-companies under the title «Technological Solutions for Processing Safety», in cooperation with the Department of Training and Career Development. The workshop dealt with a number of topics related to the implementation of equipment management and safety and best practices in the company, the latest developments in the field of global research in inspection and corrosion in the oil and gas sector, and the innovative solutions and alternative ideas. The workshop was attended by specialists from the Public Authority for Applied Education and Training and representatives of a number of international companies.
- Enterprise Risk Management (ERM) Team organized awareness sessions for the employees of the company and its oil associates attended by more than 500 KNPC employees and 37 employees of other oil companies, which have been of great benefit to the oil companies to gain from the experiences and expertise of the company in the field of risk management.
- The Company's Enterprise Risk Management Team hosted a standard event under the Risk Management Community, covering the 2040 strategic plan for risk management and the company's risk activities and management systems.
- As part of the awareness campaign organized by the Legal Department on the cybercrime law No. 63 of 2015, the Department provided an awareness lecture in English in the auditorium of KAFCO.
- IT Depart organized an awareness lecture on data science and scientists, as part of efforts to develop awareness of new technologies and intelligent use of data. ITD Manager confirmed that the technological systems and modern means available in the field of information technology lose value without the ability to manage the huge amount of data available.
- As part of the overall orientation of the oil sector towards the implementation of the 2040 strategy with regard to the automation of most of the procedures and processes in place, some operations were developed and automated in the Workforce Planning Division. This development has contributed to reducing the time and effort required to complete these operations, such as the creation of a page for job applications for "Critical Jobs ERs" Cognos, which connects the Workforce Planning Division to the Employee Sourcing Division, will increase the efficiency and effectiveness of sharing that information. The preparation of notes and the replacement of e-mails through ORACLE system were eliminated for a number of procedures.
- The (Tender Knowledge Management System) has been implemented and placed on the Department's e-business page, allowing the Department's employees to quickly obtain the

Structured On-The-Job Training (S-OJT)

necessary documents, decisions and laws to review and award tenders, which will contribute to the speed of performance and accuracy of work. Accordingly, the documentary cycle will be reduced. This system has been explained to the oil companies to convey the best procedures and methods of work.

Kuwait Aviation Fueling Co. (KAFCO)

- KAFCO won the first place (MENA HR Excellence Award 2018) in the category of "Best Initiative for the National Manpower Development" in (The 13th Human Capital Annual Forum MENA) held in Dubai in May 2018.
- The Training and Career Development is responsible for planning, developing and implementing all activities pertinent to training and development of staff. During FY 2018/2019, the department covered all programs, training courses and events associated with the development of personnel competencies, including:

  - Coordinating with KNPC to assess the team leaders participation in Talent Management capacity program for 2018/2019.

  - Developing the annual plan 2019/2020 and the five-year plan for training activity and manpower in coordination with KPC and KNPC.

  - Developing the procedures manual of the Human Resources Depart in accordance with the standards of the quality management system.

  - Developing and implementing a specialized training project in cooperation with (Haward) company to develop the job efficiency of 16 employees, during the period from October 2018 to March 2019.

  - Achieving 100% of the cybersecurity training program for all KAFCO employees.

Chapter Seven

Corporate Social Responsibility (CSR)

Kuwait National Petroleum Company (KNPC) has released the fourth Sustainability Report, highlighting the company's commitment to sustainability issues, particularly in terms of Economy, Society and Environment. It also covers the company's activities, efforts, achievements and commitment to achieve sustainability in all aspects.

The employees of the Corporate Communication Department were behind releasing this Report without the help of any external source. The company has been keen to share this inventive experience with the other sister companies, in order to extend this best practice.

Kuwait National Petroleum Company (KNPC) believes that its business is not limited to refine oil and process gas in order to enhance the economy of the State of Kuwait, but also to develop the community and ensure a sustainable future for all the population of Kuwait and protect its environment. KNPC is therefore firmly committed to the principle of "Corporate Social Responsibility" and considers it an essential part of its core business. In this context, the company always exerts efforts to encourage and sponsor various social, cultural and sporting activities. It also provides donations to many bodies that care for people with special needs and public benefit associations. The most important social contributions implemented by the company during the year are the following:

- Issuing the fourth Sustainability Report that highlights KNPC's commitment to sustainability issues, particularly economic, social and environmental ones. This Report was issued owing to the efforts of the Corporate Communication Department (CCD) staff without any outsourcing.
- Launching "Think Sustainability" contest to promote the participation of everyone, even individuals, to spread and promote the concept of sustainability and make it an essential part of the work of all employees of the company.
- In preparation for issuing the first consolidated Sustainability Report for KPC and its subsidiaries, as part of KPC's 2040 strategy, and in order to benefit from the successful experience and expertise of KNPC in this field, the company hosted the activities of the interactive workshop "Think-K" on the requirements and criteria for the development of the report split up by K-Companies sectors. The lectures, which lasted several days, were presented by specialists from Ernst & Young International, being the report advisor, and CCD of KNPC. During the workshop, speakers reviewed the most important data related to the various sectors included in the Sustainability Report, and awareness of the importance of arranging these items according to the priority of each sector, in the presence of representatives of KPC and its subsidiaries of the exploration, production and refining sectors.
- The company organized the «Celebrate Ability» festival, which is held annually at KNPC Bait Al-Wataniya Club for people with special needs, to provide an opportunity for this society grouping to help them underline their skills and talents. They also visited nursing homes for the elderly and the blind and offered them in-kind gifts as an expression of the company's concern for people with special needs.
- As part of the company's celebration of National holidays, teams from CCD and Local Marketing (LM) Department visited a large number of the company's filling stations across the country. On the 25th and 26th of February 2019, the company employees distributed souvenirs and flags to the station's visitors in a festive atmosphere that brought joy and happiness to everyone.
- Under the sponsorship of the company, the College of Technological Studies organized an induction gathering for its new students at the College building in Shuwaikh. The Training and Career Development Depart at the company submitted a presentation to introduce the students to the company, its refineries and its works. Attendees also explained the various aspects related to the training agreement with KNPC that paves the way for employment after graduation.
- As part of the program "Be a Leader", CCD organized a field workshop at the Algiers High School for Girls in Al-Shamiya. A number of newly recruited employees participated in the workshop, each forming a group of students and gathering their ideas in an effort to discover and develop entrepreneurial talent. The company signed an agreement with Injaz Kuwait to train 1,800 promising young Kuwaitis.
- As part of this agreement, CCD received students from three schools at Mina Abdullah Refinery

Auditorium to participate in an event entitled «Job Shadow Day». The event was attended by Um Al Hayman Main School, Jumana Bint Al Hassan School and Sharifa Al Awadhi School. The students were briefed on the company's 2040 Strategy and the company's vision and mission according thereto, focusing on some of the works of IT Department and refinery departments.

- In cooperation with the CFP Department, CCD organized a campaign to clean the chalets area of Mina Abdullah. A large number of employees and engineers of KNPC from various departments as well as the "STAR" Voluntary Team participated therein. These volunteer campaigns aim to spread the culture of positivity and create a spirit of cooperation among KNPC employees and this represents part of the environmental role acted by the company.
- As part of the company's community activities, and in an effort to positively interact with the needs and requirements of different society groupings, the company contributed to provide some of the supplies needed by worshipers during the holy month of Ramadan, in a number of mosques in the country. In the same context, a team from CCD distributed drinking water and dates to the customers of filling stations before breakfast, and also distributed leaflets on the safety procedures to be followed during refueling.
- The company organized the annual Ramadan contest to memorize and improve the Holy Quran recitation, which targeted the employees of the oil sector and their children, in cooperation with the Ministry of Awqaf and Islamic Affairs, which provided the Arbitration Committees. CCD supervised the organization of the competition in its 11th edition, which witnessed a remarkable attendance by the company and the oil sector's employees.
- Continuing its annual tradition in Ramadan every year, the company has set up a Ramadan Iftar Tent near the H.O. building in Ahmadi to offer Ramadan Iftar to over 800 fasting people daily. Apparently, this initiative reflects the role the company plays in various social areas.

"Think Sustainable" Tournament

- On the first day of Eid al-Adha, a team from CCD visited the social welfare inmates and congratulated them on this great religious occasion.

Kuwait Aviation Fueling Company (KAFCO)

- A visit was organized for the oil sector employees to the company building and Kuwait International Airport, in collaboration with «NAS» company, General Directorate of Civil Aviation, the Air Force and KNPC Fire Station.
- The company sponsored the celebration of the International Civil Aviation Day.

Participations in Exhibitions & Conferences

KNPC participated in many local and international exhibitions, conferences and other events and meetings, due to the importance of engagement with the people of expertise in the oil industry, and to be updated on the latest developments in downstream and technology world. Examples are:

- The company participated in the first World Refining Conference and Exhibition organized by the Gulf Downstream Association (GDA), which was held in Bahrain entitled "Towards Competitive Refining through Innovation, Cooperation and Technology". This event is considered the first leading strategic platform in the Middle East for professionals in the field of refining to meet business challenges, share best practices, and unlock potential opportunities through strategic collaboration and partnerships, in pursuit of excellence.

KNPC Participating in Gulf Downstream Association (GDA) Conference & Exhibition

- The company organized the first technical meeting of the Design & Engineering Community for 2018/2019, which is one of the Think-K initiatives sponsored by KPC. Such communities provide an important platform to enhance the cohesion, and the effective sharing of knowledge and information among workers in the various oil companies. The theme of the first meeting was "Lessons Learned" and "Best Practices", whereas the second meeting focused on three separate topics: improving the initial studies of the project to reduce change orders, implementing excellent pipeline practices, and using non-conventional energy sources.

  The company also held the third meeting of «IT community», which concentrated on «Lessons Learned», with further explaining of the importance of sharing and documenting them. The formation of this community aims at sharing knowledge and best practices in the application of IT industry standards, providing solutions, enhancing systems compliance, achieving information security and cybersecurity, and developing the planning process to help maximize production, in addition to achieving continuous improvement and organizational learning.

  The main purpose of these communities is to exchange experiences and cooperation among KPC's K-Companies. KPC entrusted KNPC to form two communities, namely IT Community and Design & Engineering Community.

- The company participated in the 2nd Manufacturing Management Community Exhibition organized by KOC as part of KPC's policy of organizing communities to exchange experiences, share best practices and standardize concepts among all oil companies. The company's participation was in the presentation of four best practices and successful experiments in Mina Al Ahmadi and Mina Abdullah refineries, presented by a number of engineers of the Processing Management Division, Inspection and Corrosion Department.

- The company hosted several meetings of GDA committees, including the Q4 meeting of the Energy Committee, whereby they reviewed the achievements of the Committee and its future plans, in addition to the special mechanisms and modern techniques related to the refining work of the GCC refineries.

  The company also hosted the second meeting of GDA Technical Committee. It also received the GDA delegation comprising reps from the UAE, KSA, Bahrain, KNPC and KIPIC. It also hosted the Q2 meeting of the GDA Technical Committee on Health, Safety and Environment. Besides, it hosted the periodical meeting of the Industrial Safety & Reliability Committee, which is one of the GDA committees. Evidently, the committee serves as a platform to facilitate interaction between the GDA founding companies and its members.

- The Company participated in the Middle East Catalyst Technology Conference and Exhibition (ME– CAT), hosted by the Kingdom of Bahrain. The company's delegation to the conference presented a number of technical papers, such as «High Sulfur Hydrogen Treatment in the Hydrogen Unit», «Diversification in the Selection of Catalyst Companies and Methods of Qualifying Manufacturers of these Materials», among others.

- In collaboration with Japan Cooperation Center, Petroleum (JCCP), the company organized a technical workshop entitled «Technical Cooperation Program», aimed at exchanging experiences and best practices in the field of maintenance. Three presentations were submitted on the latest maintenance technology available in Japan, covering inspection and maintenance techniques in cases of corrosion under isolated areas, the policy of maintaining various parts in Japanese refineries, and solutions used in operation and maintenance departments.

- Kuwait Chemical Society honored KNPC for sponsoring the graduation and distinction ceremony of the students of the Department of Chemical Engineering at the College of Engineering and

Petroleum at Kuwait University for the year 2017-2018. The President of the Department of Chemical Engineering at the University and the President of the Chemical Society thanked the company as the diamond sponsor of the ceremony. Furthermore, they expressed their pride in supporting the graduation ceremonies of Kuwaiti university graduates who will start their work in the oil sector, desalination plants and many vital sectors.

- In cooperation with Chevron Lomos Global "CLG", the Department of Corporate Planning organized a workshop aimed at highlighting the latest refining technologies in the light of the current plans of KNPC and KIPIC, to expand the refining capacity, treatment and improvement of low Sulfur Fuel Oil (LSFO). The workshop focused on technologies for the development and improvement of (LSFO), and Chevron Lumos Global made several presentations on the global market conditions, with regard to IMO 2020, LC-Platform technologies as well as the latest developments pertinent to catalysts.
- The company co-sponsored the Engineering Design Exhibition for the students of the College of Engineering and Petroleum at Kuwait University, which included the best engineering innovations of the youth thereat. Participants praised the company's stand at the exhibition, which provides sufficient information for students about the company, as it is keen to support young people, based on its vision to support promising projects.
- The company participated in the celebration of the Industrial Training Institute, which celebrated the silver jubilee of its founding. The company also participated in the exhibition accompanying the ceremony in a pavilion where it presented a number of publications in both Arabic and English, as well as presenting some souvenirs for attendees and students of the Institute.
- The company participated in the Kuwait International Health, Safety, Security & Environment (KIHSSE), is the 3rd Edition of the initiative organized by Kuwait Petroleum Corporation (KPC) in February 2019. The aim of the conference was to promote and disseminate binding cultures and behavioral patterns for all relating to security, safety, health and environmental standards. A large number of the company's employees participated in the conference and exhibition.
- The Company hosted the 27th Annual Conference of the Gas Processors Association - GCC Chapter in Kuwait in March 2019. The conference, entitled "Improving Efficiency in Natural Gas Processing - from Wellhead to Market", aimed to cover the challenges related to gas processing in Kuwait and other GCC countries. A total of 129 employees participated in the conference, workshops and presentations. This conference reflected the great importance that KNPC and Kuwait attach to increasing its gas processing capabilities, which are so important as a clean energy source for electricity production, as a feedstock for petrochemical industries, and various other industrial and domestic uses in Kuwait.
- The company participated in the work of the 2nd Forum for Rationalization of Electricity and Water Consumption, which was organized under the auspices of the Minister of Oil and Minister of Electricity and Water Dr. Khalid Al-Fadil. Participants were government agencies, academic and research institutions, military bodies and public benefit associations, where the ITD Manager presented a working paper in which he reviewed the company's efforts and activities in the field of rationalization of electricity and water consumption.
- The company participated in the exhibition «Kuwaiti Engineer's Day» organized by the Kuwaiti Society of Engineers on the occasion of the International Day of Engineers over three days. The company's pavilion received visitors to the exhibition, whereas a team of engineers provided an explanation of its tasks and roles, and responded to public inquiries pertinent to its projects.

GPA Global 2019 – 27th Annual Technical Conference – Gulf Chapter

3rd Kuwait International Health, Safety, Security & Environment (KIHSSE) Conference & Exhibition

Chapter Eight

Financial Report

The data mentioned herein explains the FY results ending on 31/3/2019 compared to the previous FY results ending on 31/3/2018.

Total assets value in the balance sheet amounted to KD 9,872,767,635 compared to KD 8,523,138,675 for FY ending on 31/3/2018 showing a rise by KD 1,349,628,960.

Revenues

The company total revenues amounted to KD 9,242,350,711 i.e. a KD 2,011,651,815 rise compared to the previous year detailed hereunder as follows:

Description	2018/2019	2017/2018
Oil refining revenues	6,277,039,444	5,002,389,653
Gas liquefaction revenues	2,641,147,098	2,049,635,404
(KAFCO) Revenues	174,895,108	146,079,440
Kuwait Aromatics Co. Revenues*	144,555,800	-
Carwash revenues	248,463	264,332
Other revenues **	4,464,798	32,330,067
Total revenues	9,242,350,711	7,230,698,896

* Including Kuwait Aromatics Co. Total Revenues for Q4 of FY 2018/2019 (over 3 months)
** Including interest on deposits, foreign currency exchange discrepancies, return on investment with an affiliate company, sale of depleted catalysts, obsolete materials and depreciated assets

KNPC continued marketing its petroleum products in the local market in favor of KPC and whose value amounted to KD 566,391,781 in the current fiscal year compared to KD 528,976,766 in the previous year.

Profit & Loss

The Company's operations results in 2018/2019 showed a net loss of KD 213,115,535 compared to last year profit of KD 134,603,718. The profit & loss details are broken down hereunder as follows:

Description	KD
Profit (loss) resulting from oil refining & gas liquefaction ops	(255,564,737)
Profit (loss) resulting from KAFCO activities	18,308,020
Profit (loss) resulting from Kuwait Aromatics Co. activities	36,778,036
Profit (loss) resulting from Local Marketing activities	96,326
Other revenues	487,042
Provisions	(13,154,925)
Remuneration for Board of Directors	(65,297)
Total profit (loss)	(213,115,535)

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

Consolidated financial statements and independent auditor's report for the year ended 31 March 2019

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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 subsidiaries (together “the Group”), which comprise the consolidated statement of financial position as at 31 March 2019, 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 2019, 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.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 2019 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: 25 April 2019

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 March 2019

	Notes	2019 KD'000	2018 KD'000
Revenue	*5*	9,317,049	7,198,369
Cost of sales	*6*	(9,351,074)	(6,906,759)
Gross (loss) / profit		(34,025)	291,610
General and administrative expenses	*7*	(187,041)	(171,126)
Other income	*8*	16,171	11,360
Provisions- net	*9*	(13,432)	(18,142)
Group's share of profit of equity accounted investees	*14*	26,953	17,496
Finance costs		(1,864)	-
Finance income		3,435	899
Foreign exchange (loss) / gain		(13,212)	2,575
Profit before board of directors' remuneration and taxes		(203,015)	134,672
Board of directors' remuneration		(113)	(68)
Taxes related to a subsidiary	*10*	(372)	-
(Loss) / profit for the year		(203,500)	134,604
Other comprehensive income / (loss)			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences		3,312	(2,688)
Other comprehensive income / (loss) for the year		3,312	(2,688)
Total comprehensive (loss) / income for the year		(200,188)	131,916
(Loss) / profit attributable to:			
Shareholders of the Company		(213,115)	134,604
Non-controlling interest	*24*	9,615	-
(Loss) / profit for the year		(203,500)	134,604
Total comprehensive (loss) / income attributable to:			
Shareholders of the Company		(210,530)	131,916
Non-controlling interest	*24*	10,342	-
Total comprehensive (loss) / income for the year		(200,188)	131,916

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

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

Consolidated statement of financial position
as at 31 March 2019

	Notes	2019 KD'000	2018 KD'000
Assets			
Property, plant and equipment	*11*	6,208,965	5,327,695
Intangible assets	*13*	41,811	-
Deferred expenses	*12*	14,220	17,160
Investment in equity accounted investees	*14*	73,709	150,619
Receivable from the Parent Company	*17*	182,600	169,139
Term deposits	*19*	91,260	-
Non-current assets		6,612,565	5,664,613
Inventories	*15*	448,742	432,790
Trade receivables	*16*	136,537	134,805
Due from related parties	*17*	1,623,104	1,735,995
Funds held by the Parent Company	*17*	726,441	321,430
Other receivables and prepayments	*18*	108,626	101,029
Term deposits	*19*	153,658	-
Cash and cash equivalents	*20*	29,935	94,395
Assets held for sale	*21*	33,160	38,082
Current assets		3,260,203	2,858,526
Total assets		9,872,768	8,523,139
Equity and liabilities			
Share capital	*22*	1,587,000	1,587,000
Statutory reserve	*23*	182,600	182,600
Foreign currency translation reserve		11,735	9,150
Accumulated losses		(213,115)	-
Acquisition reserve		27,006	27,006
Sub total		1,595,226	1,805,756
Non-controlling interest	*24*	154,644	-
Total equity		1,749,870	1,805,756
Loans and borrowings	*25*	2,707,348	2,100,919
Employees' end of service benefits	*26*	414,822	323,606
Financing received from the Parent Company	*17*	3,901,937	3,655,793
Deferred payments	*17*	141,506	-
Non-current liabilities		7,165,613	6,080,318
Loans and borrowings	*25*	436,147	29,975
Deferred payments	*17*	69,969	-
Trade payables		5,906	3,368
Other payables and accruals	*27*	406,275	449,945
Dividends payable	*28*	-	121,144
Due to related parties	*17*	38,988	32,633
Current liabilities		957,285	637,065
Total liabilities		8,122,898	6,717,383
Total equity and liabilities		9,872,768	8,523,139

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

شركة البترول الوطنية الكويتية
KNPC
A Subsidiary of Kuwait Petroleum Corporation

Consolidated statement of changes in equity
for the year ended 31 March 2019

	Share capital KD '000	Statutory reserve KD '000	Foreign currency translation reserve KD '000	Retained earnings/ (accumulated losses) KD '000	Acquisition reserve KD '000	Total KD '000	Non controlling interest KD '000	Total equity KD '000
Balance at 1 April 2017	1,587,000	169,140	11,838	-	-	1,767,978	-	1,767,978
Total comprehensive income								
Profit for the year	-	-	-	134,604	-	134,604	-	134,604
Other comprehensive income	-	-	(2,688)	-	-	(2,688)	-	(2,688)
Total comprehensive income for the year	-	-	(2,688)	134,604	-	131,916	-	131,916
Transfer to reserve	-	13,460	-	(13,460)	-	-	-	-
Dividends (Note 28)	-	-	-	(121,144)	-	(121,144)	-	(121,144)
Acquisition of a subsidiary	-	-	-	-	27,006	27,006	-	27,006
Balance at 31 March 2018	1,587,000	182,600	9,150	-	27,006	1,805,756	-	1,805,756
Balance at 1 April 2018	1,587,000	182,600	9,150	-	27,006	1,805,756	-	1,805,756
Loss for the year	-	-		(213,115)		(213,115)	9,615	(203,500)
Other comprehensive income	-	-	2,585	-	-	2,585	727	3,312
Total comprehensive loss for the year	-	-	2,585	(213,115)	-	(210,530)	10,342	(200,188)
Acquisition of a subsidiary (Note 4)	-	-	-	-	-	-	162,554	162,554
Dividend relating to non-controlling interest	-	-	-	-	-	-	(18,252)	(18,252)
Balance at 31 March 2019	1,587,000	182,600	11,735	(213,115)	27,006	1,595,226	154,644	1,749,870

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

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

شركة البترول الوطنية الكويتية
KNPC
A Subsidiary of Kuwait Petroleum Corporation

Consolidated statement of cash flows
for the year ended 31 March 2019

	Notes	2019 KD'000	2018 KD'000
Cash flows from operating activities			
(Loss) / profit for the year		(203,500)	134,604
Adjustments for:			
Depreciation	*11*	74,321	48,435
Provisions- net	*9*	12,648	18,142
Amortisation of intangible assets	*13*	887	-
Amortisation of deferred expenses	*12*	11,441	11,624
Group's share of profit of equity accounted investees	*14*	(26,953)	(17,496)
(Gain) / loss on sale of property, plant and equipment		(2,410)	24
Provision for employees' end of service benefits	*26*	125,255	132,049
Interest income		(3,434)	(899)
Interest expenses		1,864	-
Expected credit losses	*9*	705	-
Unrealised foreign currency exchange loss		13,212	-
Foreign exchange loss / (gain)		2,015	(2,575)
		6,051	323,908
Changes in:			
- Inventories		(10,556)	11,294
- trade receivables		35,476	(25,072)
- due from related parties		(79,769)	(229,656)
- other receivables and prepayments		(7,597)	10,242
- trade payables		(4,643)	(15,017)
- other payables and accruals		(52,796)	(104,523)
- due to related parties		(41,780)	(66,921)
		(155,614)	(95,745)
Employees' end of service benefits paid	*26*	(34,065)	(63,185)
Board of directors' remuneration paid	*27*	(68)	(64)
Net cash used in operating activities		(189,747)	(158,994)
Cash flows from investing activities			
Purchase of property, plant and equipment	*11*	(617,420)	(1,100,204)
Proceeds on sale of property, plant and equipment		3,956	-
Acquisition of a subsidiary- net of cash acquired	*4*	(69,954)	511
Purchase of catalysts	*12*	(8,501)	(11,923)
Funds held by the Parent Company maturing after three months from the date of placement		231,505	(231,505)
Net movement in term deposits		55,236	-
Dividend received	*14*	11,988	12,192
Interest income received		3,434	899
Net cash used in investing activities		(389,756)	(1,330,030)
Cash flows from financing activities			
Proceeds from loans and borrowings		1,008,453	1,033,894
Funding received from the Parent Company	*17*	310,304	547,792
Repayment of loans and borrowings		(123,419)	-
Deferred payments		(32,789)	-
Dividend paid to non-controlling interests		(9,126)	-
Interest paid		(1,864)	-
Net cash from financing activities		1,151,559	1,581,686
Net increase in cash and cash equivalents		572,056	92,662
Cash and cash equivalents at beginning of the year		184,320	91,658
Cash and cash equivalents at end of the year	*20*	756,376	184,320
Non-cash transactions			
Cash flows from operating activities			
Net assets of Az Zour refinery transferred to the Parent Company	*17*		1,500,065
Cash flows from operating activities			
Property, plant and equipment		65,571	-
Cash flows from financing activities			
Net assets of Az Zour refinery transferred to the Parent Company	*17*	(65,571)	(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 manufacturing 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% (2018: 99%) of the Company's revenue is earned from the Parent Company.

On 25 October 2018, the Company acquired additional 20% equity interest in Kuwait Aromatics Company K.S.C. (Closed) ("KARO"), which resulted in increase in ownership from 40% to 60%. Consequently, the Group has consolidated KARO as its subsidiary since the date of acquisition.

The consolidated financial statements comprise of the Company and its subsidiaries (together referred to as "the Group") and investment in equity accounted investees.

A list of significant directly and indirectly owned subsidiaries and equity accounted investees are as follows:

Name of entity	Country of incorporation	Principal business	Percentage of ownership	
			2019	2018
Subsidiaries				
Kuwait Aviation Fuelling Company K.S.C. (Closed) ("KAFCO")	Kuwait	Aviation Fuelling	100%	100%
KARO	Kuwait	Manufacturing and selling of Aromatics	60%	-
Subsidiary held through KARO				
Kuwait Paraxylene Production Company K.S.C. (Closed) ("KPPC")	Kuwait	Manufacturing and selling of Aromatics	100%	-
Associates and joint ventures				
KARO	Kuwait	Manufacturing and selling of Aromatics	-	40%
The Kuwait Styrene Company K.S.C. (Closed) ("TKSC" or "the Joint Venture")	Kuwait	Manufacturing and selling of Styrene	57.5%	-

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 23April 2019 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. The Group does not carry any financial assets at FVTPL.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

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

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

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

Impairment of financial assets

The Group recognises loss allowances for expected credit ("ECLs") loss on financial measured at amortized cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the cash and cash equivalents, term deposits and funds held by the Parent Company, for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, and are measured at 12-month ECLs.

Loss allowances for trade and other receivables and due from related parties, are measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Lifetime ECL are recorded on financial assets that is credit-impaired.

For trade receivables and due from related parties, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs. At each reporting date, the Group assesses each customer for lifetime ECLs based on Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Lifetime ECLs represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group methodology for specific provisions remains largely unchanged.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of impairment

At each reporting date, the Group assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due.

Financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Company estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets carried at amortised cost.

For certain financial assets carried at amortised cost and without significant financing element, IFRS 9 allows to apply simplified approach in calculating ECLs. Under this approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs.

Impairment of financial assets- policy applicable before 1 January 2018

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.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include loans and borrowings, financing received from Parent Company, due to related parties, trade payables and accruals and other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

iii) Offsetting of financial instruments

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

j) Employees' end of service benefits

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

Employees are entitled for an end of service indemnity payable under the Kuwait Labor Law, oil sector 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

Additionally, pensions and other social benefits for Kuwaiti employees are covered by The Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Company's share of contributions to this scheme, which is a defined contribution scheme, is charged to profit or loss in the year to which they relate. The difference between Oil Sector Law and Labor Law is also accrued for Kuwaiti employees.

k) Foreign currency transactions

Foreign currency translation

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 subsidiary, are translated to KD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to KD at the average exchange rates for current year. Foreign exchange differences arising on translation are recognized in other comprehensive income and presented in the foreign currency translation reserve in equity.

When a subsidiary is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests.

l) <u>Assets held for sale</u>

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.

m) <u>Provisions</u>

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.

n) <u>Borrowing cost</u>

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.

o) <u>Revenue recognition</u>

Sale of goods

Revenue from contracts with customers is recognised upon satisfaction of the performance obligations for the transfer of the promised goods and services. The revenue amount that are recognised reflect the consideration to which the Group expects to be entitled in exchange for those goods and services. Revenue from the sale of finished products is recognised when a customer obtains control of those products, which normally is when title passes at point of delivery, based on the contractual terms of the agreements.

For export sales, products are sold on cost and freight basis, where the Group is required to provide shipping and handling services after the date at which the products have transferred to the customer. The Group determines that shipping and handling activities is a separately identifiable and distinct performance obligation from the sale of products. The Group allocates a portion of the total transaction price to delivery services based on a best estimate of a similar stand-alone service. Revenues on these services are recognized over the time.

The Group also enters into long-term contracts with local customers for sale of light naphtha, benzene and other products. The Group determined that each unit of aforementioned products are distinct because it could be sold separately and are not dependent on or highly interrelated with the other units. Transfer of products to customers is considered as a series of distinct products. Revenue is recognized over the time as the customer simultaneously receives and consumes the benefits. Output method is used to measure the progress towards complete satisfaction of performance obligation.
Certain products in certain markets may be sold with variable pricing arrangements. Such arrangements determine that a preliminary price is charged to the customer at the time of transfer of the control of products, while the price of products can only be determined by reference to a time period ending after that time. In such cases, and irrespective of the formula used for determining preliminary and final prices, revenue is recorded at the time of transfer of control of products at an amount representing the expected final amount of consideration that the Group receives. Where the Group records receivable for the preliminary price, subsequent changes in the estimated final price will not be recorded as revenue until such point in time at which the final price is determined.

The Group also pays demurrages for delays caused by incomplete shipments at the customer port. The Group considered demurrages as price adjustments. Under IFRS 15, the Group considered this as variable consideration while determining the transaction price for sale of products.

Local marketing and distribution network operation

Cost of operating filling stations and distribution network is reimbursed by the Parent Company and is recognized over the period of time.

Other Services

The Group also provides ancillary services such as car washing, defueling and other maintenance services for which is recognised over a period of time as the related services are performed.

Interest income

Interest income is accrued on a time proportion basis with reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Revenue recognition- policy applicable before 1 January 2018

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, aromatics 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.

p) Critical accounting judgements and key sources of estimation uncertainty

The following are the critical accounting judgements, apart that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Investment in joint venture

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. When the Group is a party to an arrangement it shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively; joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. Management needs to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date are discussed below:

Measurement of ECLs

The measurement of ECLs on financial assets involves complex estimations. ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Company expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio.

The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities.

The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time.

Estimation of useful lives

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

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.

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 467,396 thousand (2018: KD 449,308 thousand). Their related provisions for slow moving and obsolete items relating to spare parts were KD 18,654 thousand (2018: KD 16,518 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

q) Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below:

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises 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 recognition 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.*

(i) Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous contracts. Instead, the Group will include the payments due under the lease in its lease liability.

No significant impact is expected for the Group's finance leases.

(ii) Leases in which the Group is a lessor

As at the reporting date, the Group has not entered into any contracts in which the Group is a lessor.

(iii) Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, if required, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's financial statements in respect to the operating leases. Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective. However, currently it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

Other standards

The following amended standards and interpretations, which are issued but not yet effective, are not expected to have a significant impact on the financial statements.

- IFRIC 23 Uncertainty over Tax Treatments.
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards

4. Business combination

On 25 October 2018, the Board of Directors of the Parent Company approved and transferred 20% equity interest in KARO ("the Acquiree") held by PIC, a wholly owned subsidiary of the Parent Company, to KNPC ("the Acquirer"), effective 1 October 2018 ("date of acquisition"), for a purchase consideration of KD 81,277 thousand. As a result of this transaction, the ownership interest of KNPC increased to 60%. The Acquiree is primarily involved in manufacturing and selling of aromatics products.

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. Thus, the Acquirer decided to account, effective 1 October 2018 ("date of acquisition")for this transaction at book value. No gain or loss was recognised on acquisition of the Acquiree.

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

	KD '000
Property, plant and equipment	404,882
Intangible assets	42,728
Investment in a joint venture	69,430
Inventories	13,122
Trade and other receivables	37,913
Due from related parties	14,644
Term deposits	300,154
Cash and cash equivalents	11,323
Loans and borrowings	(188,138)
Deferred payments	(244,264)
Trade and other payables	(7,274)
Due to related parties	(48,136)
Total nets assets acquired	406,385
Cash paid	(81,277)
Carrying value of pre-existing ownership (Note 14, A)	(162,554)
Non-controlling interest	(162,554)
Net contribution	-
Cash acquired on acquisition	11,323
Cash paid	(81,277)
Net cash out flow on acquisition	(69,954)

If the acquisition had occurred on 1 April 2018, management estimates that the contribution towards the Group's consolidated revenue and profit before taxes would have been KD 465,741 thousand and KD 33,505 thousand respectively.

5. Revenue

	2019 KD '000	2018 KD '000
Refined products	6,277,039	5,002,390
Liquefied petroleum gas	2,641,147	2,049,636
Aromatic products	144,556	-
Aviation fuel	174,895	146,079
Revenue from local marketing operations (Note 2(e))	79,315	-
Other revenue	97	264
	9,317,049	7,198,369

The Group disaggregates its revenue from contracts with customers by products, services and geographic region.

	2019 KD'000
Point in time	
Refined products	6,277,039
Liquefied petroleum gas	2,641,147
Aviation fuel	174,895
Paraxylene	60,502
Heavy aromatics	400
	9,153,983
Over the time	
Benzene	11,525
Light naptha	48,576
Other products	12,001
Reimbursement of local marketing operating expenses	79,315
Other revenue	97
Shipping and handling services	11,552
	163,066
Total sales	9,317,049

Remaining performance obligations represent the transaction price of firm sales arrangements for which volumes have not been delivered. At the reporting date, remaining performance obligations for shipment and handling services has not been disclosed because the original duration of these services are within one year. Additionally, long-term contracts are also excluded from the remaining performance obligations due to uncertainty associated with estimating the future production volumes and market prices.

6. Cost of sales

	2019 KD '000	2018 KD '000
Cost of crude oil and gas	8,530,936	6,391,731
Cost of feedstock (including KARO depreciations)	124,778	-
Staff costs	359,662	287,107
Local marketing operating expenses (including depreciation)	79,315	-
Other costs	180,783	170,198
Amortisation (Note 12)	11,441	11,624
Depreciation (Note 11)	64,159	46,099
	9,351,074	6,906,759

7. General and administrative expenses

	2019 KD '000	2018 KD '000
Staff costs	174,508	189,021
Other costs	10,885	9,333
Depreciation (Note 11)	1,648	2,331
Recovery of local marketing overheads from the Parent Company	-	(29,559)
	187,041	171,126

8. Other income

	2019 KD'000	2018 KD'000
Recovery of contract penalties	7,335	3,443
Handling charges	3,740	2,711
Gain on sale of catalysts	404	854
Gain on disposal of scrap materials	354	419
Insurance recoveries	365	50
Others	3,973	3,883
	16,171	11,360

9. Provisions- net

	2019 KD'000	2018 KD'000
Provision for legal claims	-	1,829
Provision for expected credit losses (Note 16)	784	-
Provision for assets retirement obligation	-	15,000
Provision for inventories	12,648	1,313
	13,432	18,142

10. Taxes related to subsidiary

KARO calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Contribution to Zakat is calculated at 1% of the profit of the subsidiary in accordance with the Ministry of Finance resolution No. 58/2007.Post acquisition of KNPC, KARO recorded KFAS expense of KD 378 thousand and reversal of ZAKAT amounted to KD 6 thousand respectively.

11. 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 2018	806,906	2,147,960	246,406	8,821	41,906	4,479,089	7,731,088
Additions	15	2,282	1	6	1,071	553,474	556,849
Assets acquired on acquisition of a subsidiary (Note 4)	-	586,122	18,314	-	-	6,662	611,098
Transfer from assets under construction	66,192	252,542	25,363	103	-	(344,200)	-
Disposals	-	(10,419)	-	-	-	-	(10,419)
Foreign currency translation adjustments	-	2,338	73	-	-	26	2,437
Balance at 31 March 2019	873,113	2,980,825	290,157	8,930	42,977	4,695,051	8,891,053
Accumulated depreciation and impairment losses							
Balance at 1 April 2018	697,577	1,484,680	193,950	7,054	20,132	-	2,403,393
Charge for the year	14,413	58,476	4,522	405	1,178	-	78,994
Assets acquired on acquisition of a subsidiary (Note 4)	-	200,004	6,212	-	-	-	206,216
Disposals	-	(7,407)	-	-	-	-	(7,407)
Foreign currency translation adjustments	-	866	26	-	-	-	892
Balance at 31 March 2019	711,990	1,736,619	204,710	7,459	21,310	-	2,682,088
Carrying amounts							
At 31 March 2019	161,123	1,244,206	85,447	1,471	21,667	4,695,051	6,208,965

11. 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 2017	759,995	2,117,684	215,660	4,576	39,757	4,681,343	7,819,015
Additions	31	9	14	687	2,149	1,097,314	1,100,204
Assets acquired on acquisition of a subsidiary	40,421	1,026	12,750	2,533	-	132	56,862
Reclassification from assets held for sale (Note 22)	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	13,295	860	4,058	2,451		-	20,664
Reclassification from assets held for sale (Note 22)	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

Freehold land, buildings and facilities includes an amount of KD 422,484 (2018: KD 422,484) which represents freehold land. Further assets under construction of KD 3,986,162 thousand (2018: KD 3,594,586 thousand) relates to the Clean Fuels Project ("CFP"). During the year, the Group capitalised borrowing cost amounted to KD 4,647 thousand (2018: KD 6,694 thousand) related to CFP.

Certain property, plant and equipment have been assigned as security for the loans and borrowings secured by KARO (Note 25).

The depreciation charge has been allocated as follows:

	2019 KD '000	2018 KD '000
Cost of sales (Note 6)	64,159	46,099
General and administrative expenses (Note 7)	1,648	2,331
Depreciation relating to KARO	8,513	-
Local marketing costs	1,144	5
Charged to the Group's profit or loss	75,464	48,435
Charged to the Parent Company in respect of local marketing	-	1,143
Charged to Kuwait Oil Company and other related parties	3,530	761
	78,994	50,339

12. Deferred expenses

	2019 KD'000	2018 KD'000
Balance at beginning of the year	17,160	16,861
Additions	8,501	11,923
Amortisation charge (Note 6)	(11,441)	(11,624)
Balance at end of the year	14,220	17,160

13. Intangible assets

	2019 KD'000	2018 KD'000
Assets acquired through acquisition of a subsidiary (Note 4)	73,194	
Balance at end of the year	73,194	-
Accumulated amortisation and impairment losses	-	
Acquired through acquisition of a subsidiary (Note 4)	30,466	
Charge for the year	887	-
Foreign currency translation differences	30	-
Balance at end of the year	31,383	-
Carrying amount	41,811	-

Intangible assets includes license fees paid to UOP Limited and reservation rights. The license fees paid to UOP Limited represent the technology purchased from UOP Limited that is used in the production of paraxylene.

Reservation right fees represent the Group's share of total utilities and infrastructure facilities developed and owned by EQUATE (Note 17). Amortisation is allocated to cost of sales as it relates primarily to the Aromatics plant.

14. Investment in equity accounted investees

	2019 KD '000	2018 KD '000
Interest in associate (Note A)	-	150,619
Interest in joint venture (Note B)	73,709	-
	73,709	150,619

A. Associate

The table also reconciles the summarised financial information to the carrying amount of the Company's interest in KARO. The financial information for year 2018 presented in the table below includes the results of KARO for the period from 1 January to 31 December 2017, whereas the financial information for year 2019 includes the results of KARO for the period from 1 January to 1 October 2018, since KARO became subsidiary of the Group effective from 1 October 2018. The movement in the carrying amount of investment in KARO is as follows:

	2019 KD '000	2018 KD '000
Balance at beginning of the year	150,619	148,003
Share of results	22,355	17,496
Foreign currency translation differences	1,568	(2,688)
Dividend received	(11,988)	(12,192)
Transfer effective 1 October 2018 (Note 4)	(162,554)	-
Balance at end of the year	-	150,619

The following table illustrates summarised financial information of KARO:

	2019 KD '000	2018 KD '000
Statement of financial position		
Non-current assets	-	514,768
Current assets	-	384,800
Non-current liabilities	-	(325,351)
Current liabilities	-	(197,669)
Net assets	-	376,548
Group's share of net assets (40%)	-	150,619
Statement of profit or loss and other comprehensive income		
Revenue	467,619	432,342
Profit	55,888	43,740
Group's share of profit (40%)	22,355	17,496
Commitments and contingencies	-	2,670

B. Investment in a joint venture

The Group acquired 57.50% equity interest in TKSC through acquisition of additional equity interest in KARO (Note 4). TKSC is involved in the production of styrene monomer and other related products in the State of Kuwait. The movement in the carrying amount of the investment in TKSC is as follows:

	2019 KD'000	2018 KD'000
Asset acquired through acquisition of a subsidiary (Note 4)	69,430	-
Group's share of profit	4,598	-
Group's share of foreign currency translation difference	(319)	-
Balance at end of the year	73,709	-

The following table illustrates summarised financial information of TKSC, not adjusted for Group's share of interest:

	2019 (KD'000)	2018 (KD'000)
Statement of financial position		
Non-current assets	95,038	-
Current assets	87,785	-
Non-current liabilities	(25,427)	-
Current liabilities	(29,207)	-
Net assets	128,189	-
Group's share of net asset	73,709	-

The Group's share of TKSC's commitments and contingencies amounted to KD 1.6 million (2018: Nil).

15. Inventories

	2019 KD '000	2018 KD '000
Crude oil	14,233	14,901
Finished goods	357,023	349,565
Maintenance and spare parts	63,635	71,583
Catalysts and chemicals	32,502	12,181
Goods in transit	3	1,078
	467,396	449,308
Provision for obsolete and slow moving inventories	(18,654)	(16,518)
	448,742	432,790

16. Trade receivables

	2019 KD '000	2018 KD '000
Trade receivables	138,126	135,610
Expected credit loss allowances	(1,589)	(805)
	136,537	134,805

Trade receivables are non-interest bearing and have average credit period ranges from 30-90 days. Movement in the expected credit loss allowances are as follows;

	2019 KD'000	2018 KD'000
Balance at beginning of the year	805	805
ECLs for the year	784	-
Balance at end of the year	1,589	805

17. 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. The transactions of related parties are carried out at terms approved by the management.

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

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 3.25% to 2.85% respectively (2018: 2.1% to 2.5%) per annum.

Receivable from the Parent Company- 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.

At the reporting date, the Group has not recorded any impairment loss against balances due from related parties (2018: Nil).

The Group is engaged in carrying out local marketing sales on behalf of the Parent Company. The products sold in the local market are the property of the Parent Company, accordingly they are not reflected in the statement of profit or loss of the Group. Local marketing sales represent sale of gasoline and other related products amounting to KD 566,392 thousand (2018: KD 528,977 thousand).

On 2 December 2004, KARO signed the Material and Utility Supply Agreement ("MUSA") and Operation, Maintenance and Service Agreement ("OMSA") with EQUATE. On 8 February 2006, an agreement to amend the MUSA and service agreements ("primary agreements") was signed between the parties to the primary agreements releasing KARO from its obligations and liabilities under the primary agreements and appointing KPPC in place of KARO to assume and perform all obligations of KARO as if KPPC was and had been a party to the primary agreements.

Under the terms of the MUSA, KPPC contributed reservation right fees to EQUATE that represent 27.51% of the capital construction costs incurred by EQUATE on the utilities and infrastructure facilities developed by and owned by EQUATE. The percentage contribution of reservation right fee is based on the usage percentage of the utilities and infrastructure facilities by KPPC.

Under the terms of the OMSA, EQUATE operates, maintains and provides various services to KPPC for which EQUATE receives management and incentive fees over and above the actual operating cost.

On 2 December 2004, KPPC signed a Benzene Supply Agreement with TKSC, under which KPPC has an obligation to supply TKSC with a minimum quantity of 325,000 metric tons of benzene per annum at the contract price.

On 14 April 2007, the KPPC signed a marketing agreement with Petrochemical Industries Group K.S.C. ("PIC") under which PIC acts as an exclusive agent of sale of Paraxylene quantities produced by the Subsidiary. PIC receives commission of 0.1% of the contracted price of all Paraxylene quantities sold by KPPC.

On 29 April 2007, KPPC entered into Aromatics Plant Feedstock and Product Supply Agreement ("FS&PS") with KPC. Under the terms of FS&PS, KPPC purchase full range Naphtha from KPC as feedstock to produce Paraxylene and Benzene and sell by-products i.e. Light Naphtha ("LN"), Liquefied Petroleum Gas ("LPG") and Hydrogen to KPC.

On 29 April 2007, KPPC signed an agreement with KPC for the supply of feedstock which is used in the production of paraxylene and benzene. In addition, KPPC entered into a deferred payment agreement with KPC, which stipulated that 50% of the feedstock cost for 24 months shall be deferred from the start date of operations and the consumption of raw material by KPPC and an aggregate amount at the end of the 24th month shall be repayable over 18 consecutive semi-annual instalments effective from the 36th month from the start date of the deferred payment in addition to a deferral fee equivalent to nine months LIBOR over and above the aggregate deferral payment. The effective interest rate on the outstanding deferred payments balance was 0.86% (2017: 0.87%) per annum. According to the agreement, KPPC shall not pay any dividends to its shareholders until the aggregate deferral amount is paid to KPC and KNPC in full.

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 6).

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

	2019 KD '000	2018 KD '000
Balances with related parties		
Due from related parties		
Parent Company	1,618,312	1,724,821
Kuwait Oil Tanker Company K.S.C.	329	184
Kuwait Gulf Oil Company K.S.C.	58	68
Petrochemical Industries Company K.S.C.	4,264	106
Kuwait Foreign Petroleum Exploration Company K.S.C.	5	16
Kuwait Petroleum International	56	50
Kuwait Integrated Petroleum Industries Company K.S.C.	-	10,714
Oil Sector Servicing Company K.S.C.	2	-
Petrochemical industries Company K.S.C	78	
Other related parties	-	36
	1,623,104	1,735,995
Funds held by the Parent Company	726,441	321,430
Receivable from the Parent Company (non-current)	182,600	169,139
Due to related parties		
Kuwait Oil Company K.S.C.	38,941	31,334
Petrochemical Industries Company K.S.C.	47	-
Kuwait Paraxylene Production Company K.S.C.	-	1,299
	38,988	32,633
Financing received from the Parent Company (non-current)	3,901,937	3,655,793
Deferred payments		
Non- Current	141,506	-
Current	69,969	-
	211,475	-

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

	2019 KD '000	2018 KD '000
Balance at beginning of the year	3,655,793	4,641,932
Acquisition of a subsidiary	-	10,274
Net assets of Az Zour refinery transferred to the Parent Company	-	(1,500,065)
Advances received	310,304	547,792
Advances credited to the Parent Company's current account	(64,160)	(44,140)
Balance at end of the year	3,901,937	3,655,793

	2019 KD '000	2018 KD '000
Transactions with related parties		
Sales		
Parent Company	8,997,598	7,052,025
Benzene to TKSC	12,678	-
Light naptha and LPG to the Parent Company	53,430	-
Light ends, pygas and other products to EQUATE	266	-
Light ends to TKOC	147	-
Purchases		
Crude oil from the Parent Company	9,351,253	6,906,618
Light naphtha from the Parent Company	104,438	-
Others		
Aromatics plant management fees to EQUATE	189	-
Operating and utilities cost reimbursed to EQUATE for running the Aromatics plant	5,841	-
Marketing fees to PIC	364	-
Marine expenses	31,374	36,850
Interest income adjusted against borrowing costs	22,394	1,952
Medical expenses	76,722	70,216
Net assets of Az Zour refiner transferred to the Parent Company	-	1,500,065
Deferred payments	69,969	-
Key management compensation		
Salaries and short-term benefits	1,021	1,051
Employees' end of service benefits	238	572
	1,259	1,623

18. Other receivables and prepayments

	2019 KD '000	2018 KD '000
Prepayments and deposits	13,893	13,726
Advances against projects	31,724	45,278
Other receivables	63,009	42,025
	108,626	101,029

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

19. Term deposits

	2019 KD'000	2018 KD'000
Term deposits with original maturity of more than one year	91,260	-
Term deposits with original maturities of more than three months and less than one year	153,658	-
	244,918	-

Term deposits are placed with financial institutions and carries effective interest rate of 3.05 % (2018: 2.40%) per annum (Note 25).

20. Cash and cash equivalents

	2019 KD '000	2018 KD '000
Cash in hand	255	2,850
Cash at bank	29,680	91,545
Cash and cash equivalents as disclosed in the consolidated statement of financial position	29,935	94,395
Funds held by the Parent Company maturing within three months from the date of placement	726,441	89,925
Cash and cash equivalents as disclosed in the consolidated statement of cash flows	756,376	184,320

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 (Note 17).

Term deposits represents deposits placed with financial institutions of original maturity of less than three months from the date of placement and earn average interest rate of 1.91% (2018: Nil) per annum. At the reporting date, bank balances and term deposits are placed as security for project financing (Note 25).

21. 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:

	2019 KD '000	2018 KD '000
Balance at beginning of the year	38,082	40,731
Reclassification to property, plant and equipment (Note 11)	-	(1,925)
Reclassification to inventories	(4,922)	(724)
Balance at end of the year	33,160	38,082

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 2019. 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 2019.

22. Share capital

The authorized, issued and fully paid up share capital of the Company comprises of 1,587 million shares of KD 1 each (2018: 1,587 million shares of KD 1 each) and is fully contributed in cash.

23. 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.

24. Non-controlling interest

The following table summarises the information relating to the non-controlling interest ("NCI") in KARO, before any intra group eliminations.

	2019 KD'000	2018 KD'000
NCI percentage	40%	-
Statement of financial position		
Non-current assets	604,339	-
Current assets	203,129	-
Non-current liabilities	(214,991)	-
Current liabilities	(205,867)	-
Net assets	386,610	-
Net assets attributable to NCI	154,644	-

	2019 KD'000	2018 KD'000
Statement of profit or loss and other comprehensive income		
Revenue	144,556	-
Profit	24,038	-
OCI	3,312	-
Total comprehensive income	27,350	-
Profit allocated to NCI	9,615	-
OCI allocated to NCI	727	-
Cash flows from operating activities	11,677	-
Cash flows from investment activities	21,701	-
Cash flows from financing activities	(33,368)	-
Net change in cash and cash equivalents	10	-

25. Loans and borrowings

	2019 KD '000	2018 KD '000
Current portion		
Long term loans	158,855	-
Export credit agencies loans	186,109	29,975
Project financing related to KARO	91,260	-
	436,224	29,975
Non-current portion		
Long term loans	1,032,482	1,200,000
Export credit agencies loans	1,601,330	900,919
Project loans related to KARO	73,459	-
	2,707,271	2,100,919

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% (2018: 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, the Company fully utilized Islamic and conventional facility of KD 710 million and KD 470 million respectively.

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.

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.

Project financing related to KARO

On 17 May 2007, KPPC, a 100% owned subsidiary of KARO, signed a KD 427 million project financing facility with a consortium of banks which includes commercial facilities of KD 321 million and an islamic loan facility of KD 106 million. The term loan is repayable over a period of 11 years in biannual instalments starting from 15 December 2010 and maturing on 15 June 2021. The coupon rate on this facility is LIBOR + 0.4% till the completion of the project, LIBOR + 0.45% till 7th anniversary of the project, LIBOR +0.6% till 10th anniversary of the project and LIBOR + 0.7% till the maturity date. The effective interest rate on the outstanding balance was 2.82% per annum. Project finance is secured by a charge over the Subsidiary's property, plant and equipment and assignment of bank balances (Note 11 & Note 20).

26. Employees' end of service benefits

	2019 KD '000	2018 KD '000
Balance at beginning of the year	323,606	248,583
Acquisition of a subsidiary (Note 4)	26	6,159
Charge for the year	125,229	132,049
Payments made during the year	(34,039)	(63,185)
Balance at end of the year	414,822	323,606

27. Other payables and accruals

	2019 KD '000	2018 KD '000
Accrued expenses	115,210	156,885
Accrued utilities	30,542	19,071
Contract retentions	201,127	217,527
Other payables	30,998	32,184
Leave provision	28,398	24,278
	406,275	449,945

Accrued expenses includes an amount of KD 65 thousand (2018: KD 68 thousand) relating to the Company's board of directors' remuneration for the year ended 31 March 2019, which is subject to approval of shareholders in the Annual General Assembly.

28. Dividends payable

	2019 KD '000	2018 KD '000
Balance at beginning of the year	121,144	194,125
Profit for the year	-	121,144
Amounts transferred to the Parent Company	(121,144)	(194,125)
Balance at end of the year	-	121,144

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.

29. 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.

	2019 KD '000	2018 KD '000
Minimum lease payments recognised as an expense in the current year	7,897	5,302

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

	2019 KD '000	2018 KD '000
Within one year	8,312	6,900
After one year but not more than five years	16,552	8,280
	24,864	15,180

30. 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, term deposits 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.

	2019 KD '000	2018 KD '000
Receivable from the Parent Company	182,600	169,139
Trade receivables	136,537	134,805
Other receivables	63,009	42,025
Due from related parties	1,623,104	1,735,995
Funds held by the Parent Company	726,441	321,430
Term deposits	244,918	-
Bank balances	29,935	94,395
	3,006,544	2,497,789

The Group manages 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 52,826 thousand (2018: KD 50,086) 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 83% (2018: 91%) of the outstanding trade receivables balance:

	2019 KD '000	2018 KD '000
First Fuel Marketing Company K.S.C.	13,962	17,318
Al-Sour Fuel Marketing Company K.S.C.	14,829	17,202
Ministry of Defence, Kuwait	5,605	2,708
Ministry of Interior, Kuwait	1,694	1,088
Kuwait Airways Company K.S.C	78,728	84,719

Expected credit losses

Trade receivables

Loss allowance for trade receivables is measured at an amount equal to lifetime ECLs. The lifetime ECLs on trade receivables are assessed based on the Group's historical credit loss experience, adjusted for factors that are specific to the customers, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Impairment was assessed to be insignificant as there has been no history of default and there has been no dispute arising on the invoiced amount from customers.

Due from related parties balances

Transactions with related parties are carried out on a negotiated contract basis. The related parties are with high credit rating and repute in the market. Impairment on the due from a related party have been measured on the basis of lifetime expected credit losses. The Group considers that these have low credit risk based on historical experiences, available press information and experienced credit judgment. As on 31 March 2019, these are neither impaired nor due. The lifetime ECL computed on due from related parties are not significant.

Cash and cash equivalents, term deposits and funds held by the Parent Company

Impairment on cash and cash equivalents, term deposits and funds held by the Parent Company has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents, term deposits and funds held by the Parent Company have low credit risk based on the external credit ratings of the counterparties. The 12 month ECL computed on the above said finacial instruments is not significant.

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**
2019						
Loans and borrowings	3,204,066	332,084	232,342	1,810,739	1,394,191	3,769,356
Financing received from the Parent Company	3,901,937	-	-	3,901,937	-	3,901,937
Trade payables	5,906	5,906	-	-	-	5,906
Other payables and accruals	406,275	-	406,275	-	-	406,275
Deferred payments	211,475	-	71,206	142,989	-	214,195
Due to related parties	38,988	38,988	-	-	-	38,988
	7,768,647	376,978	709,823	5,855,665	1,394,191	8,336,657
	KD '000	**KD '000**	**KD '000**	**KD '000**	**KD '000**	**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	3,368	3,368	-	-	-	3,368
Dividends payable	121,144	121,144	-	-	-	121,144
Other payables and accruals	449,945	-	449,945	-	-	449,945
Due to a related party	32,633	32,633	-	-	-	32,633
	6,393,777	184,133	500,933	4,931,530	1,163,094	6,779,690

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.

	2019 KD'000	**2018 KD'000**
Assets	860,868	304,893
Liabilities	(2,436,142)	(930,894)
Net short exposure	(1,575,274)	(626,001)

The following exchange rates has been applied;

	Average rate		**Year-end spot rate**	
	2019	**2018**	**2019**	**2018**
US Dollars	0.30177	0.30364	0.30420	0.29975

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 78,764 thousand (2018:KD 31,300 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.

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.

31. 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:

	2019 **KD '000**	**2018** **KD '000**
Financing received from the Parent Company	3,901,937	3,655,793
Loans and borrowings	3,204,066	2,130,894
Deferred payments	211,475	-
Cash and cash equivalents	(29,935)	(94,395)
Net debt	7,287,543	5,692,292
Total equity	1,749,870	1,805,756
Total capital	9,037,413	7,498,048
Gearing ratio	80.64%	75.92%

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.

32. Capital commitments

As at the reporting date, the Company had commitments in respect of future capital expenditure amounting to KD 579,409 thousand (2018: KD 459,311 thousand). Except for CFP, other commitments will be financed by the Parent Company (Note 15).

KARO's subsidiary has following fixed sale and purchase commitments until the agreement is cancelled in writing by both contractual parties:

- Sale of benzene to TKSC amounting to approximately KD 0.2 million per day; and
- Purchase of naphtha from the Parent Company amounting to approximately KD 1.36 million per day.
- Sale of return streams of naphtha to Parent Company amounting to approximately KD 0.66 million per day.

In addition to the above, the subsidiary also has capital commitments amounting to KD 274 thousand.

33. 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.

Acknowledgment

Kuwait National Petroleum Company extends its sincere thanks and appreciation to all its employees who have made great efforts and were the basis from which the company started to continue its career and performance of its responsibilities and successes at various levels.

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