

ANNUAL REPORT

2015 - 2014





Major projects

2015 -2014
Annual Report



مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

Annual Report



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



His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince



Dr. Ali Al-Ameer

Minister of Oil

Chairman of Kuwait Petroleum Corporation

KPC's Board of Directors



Nizar Mohammed Al-Adsani
Deputy Chairman and CEO, KPC



Abdulhadi Marzouq Al-Waad
Board Member



Abdullah Saud Al-Humaidi
Board Member



Abdulwahab Mohammad Al-Wazzan
Board Member



Abdullatif Hamad Al-Tourah
Board Member

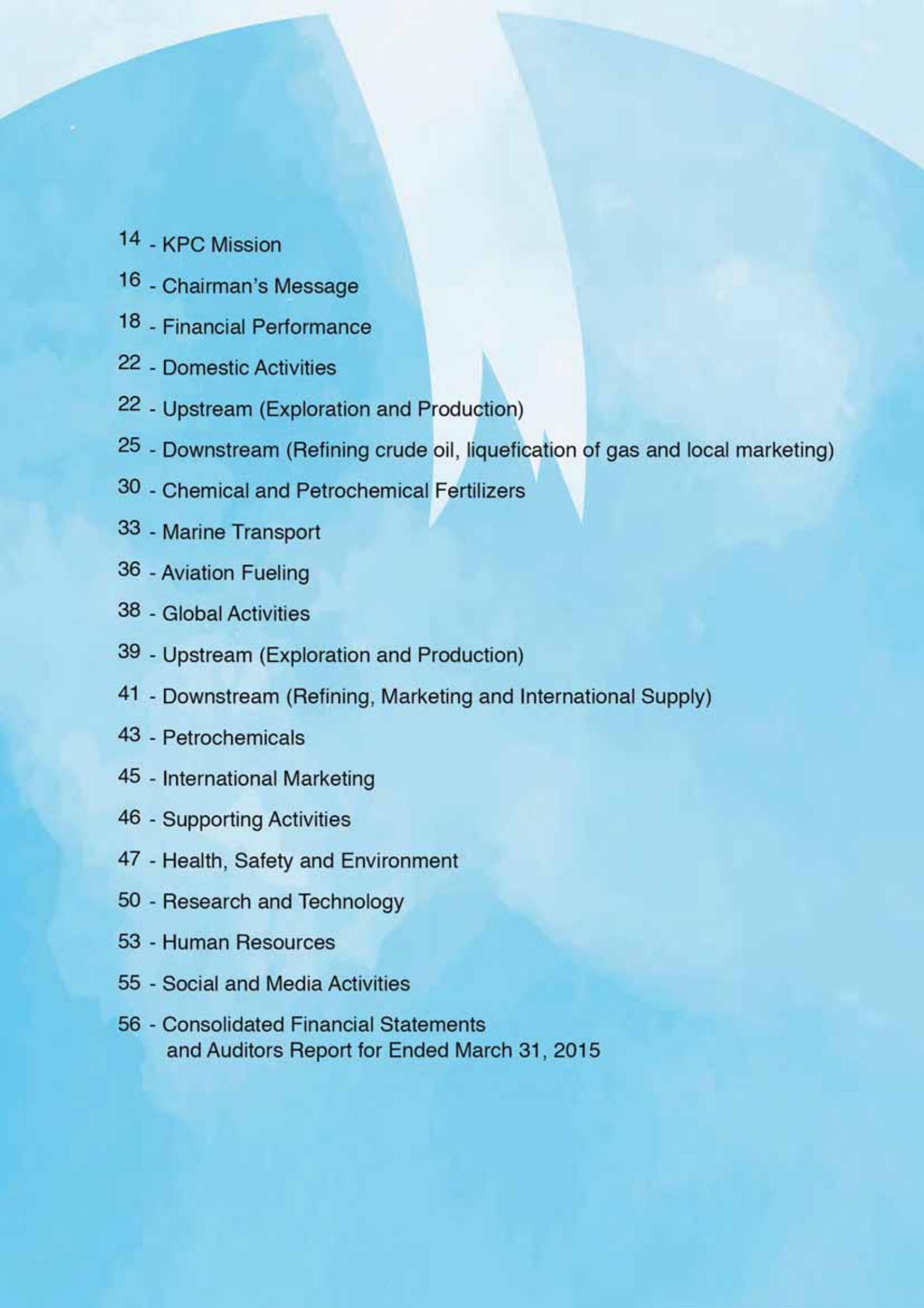


Khaled Saleh Bu Hamra
Board Member



Hamza Abdullah Bakhsh
Board Member





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KPC's Mission:

Kuwait Petroleum Corporation (KPC) is a corporation of economic character, run on a commercial basis and fully owned by the State. It is one of the world's major oil & gas companies and its activities are focused on petroleum exploration and production, refining, marketing, petrochemicals, and transport.

KPC's mission is to manage and operate these integrated activities worldwide in the most efficient and professional manner, in addition to growing shareholder value whilst ensuring the optimum exploitation of Kuwait's hydrocarbon resources.

KPC has an important role in contributing to the support and development of the Kuwaiti economy, developing national manpower, maintaining superior commercial and technical expertise and proactively managing the environmental, health and safety aspects related to KPC's businesses.

KPC's Vision

- Be a highly profitable and performance driven company.
- Contribute significantly to the support and development of the Kuwaiti economy.
- Strengthen the world class reputation of all KPC operations.
- Encourage continuous learning in all areas related to KPC's business.
- Become a regional leader in HSE performance and apply the latest and the most appropriate technologies in KPC's operations.

KPC's Values:

- Commitment to HSE
- Honesty, Integrity and Transparency
- Quality and Excellence
- Innovation/ Responsiveness
- Motivating Environment
- Customer Satisfaction
- Teamwork
- Trust



Speech of HE Minister of Oil, State Minister for Parliament Affairs, and Chairman of KPC board of directors Dr. Ali Saleh Al-Omair in the editorial of the annual report of the financial year 2014 / 2015

It is privilege to present the annual report of Kuwait Petroleum Corporation and its subsidiaries regarding the financial year 2014/ 2015 including the most important achievements fulfilled by the Kuwaiti oil sector as well as the latest developments of the capitalistic oil projects.

Although the financial year 2014 /2015 witnessed an ostensible decline in crude oil prices which are also influenced by the fluctuations of the international oil markets and the geopolitical incidents regionally and internationally including the suspension of production in the Divided Zone since October, 2014, KPC and its subsidiaries managed efficiently to surmount such challenges and move forward towards its development plan, as it managed to finance its capitalistic projects by itself.

In fact, such decline of oil prices led to reducing the group revenues of KPC and its subsidiaries in the financial year 2014 /2015 by KD1.253.8 million; nonetheless, the amount of investment in the fixed assets during that financial year was estimated at KD2.843.9 million compared to the previous fiscal year in which the amount of investment was estimated at KD2.203.5 million.

In fact, KPC puts forth diligent efforts to develop its production capability which is estimated at 3.042.3 million (bpd) to keep reliably its contributions in energy security through providing the regional and international oil markets with supplies. Consequently, KPC has prioritized developing the ways of producing the heavy oil with the help of the latest technologies applied internationally in this domain. It pays also special concern to non-associate gas – the free gas – whose rate of production reached about 127 million cubic feet; in addition, it managed to reinforce its production of the associate gas to reach 1.535 million cubic feet per day.

As for the percentage of achievement in Al-Zour Refinery project which will greatly take part in importing easily the liquefied natural gas to meet the needs of the local market on the long run, we can say that about 9.92% of the project has been fulfilled, as the capacity of the refinery's primary engineering designs, which have been achieved, is estimated at 3000 billion BTU/day.

In the same context, the actual percentage of achievement in Clean Fuel Project reached about 21.8% after getting the necessary approvals to complete the various phases of the project.

With regard to the petrochemical industry, Petrochemical Industries Company (PIC) signed a long-term contract with Jindal Company to export 36,000 tons of polypropylene. In addition, it signed a one-year-contract with Italian ILPA Co to export 10,000 tons of polypropylene starting January 1, 2015.

On the level of the marine transport, the rates of operation for Kuwait Oil Tanker Company have ostensibly increased during the financial year 2014/2015 by 2.03% compared to the previous financial year, as the company received nine new very large crude carriers (VLCC).

As for exterior exploration and production, Kuwait Foreign Petroleum Exploration Company (KUFPEC) managed to obtain a number of international projects with different percentages; the matter will take partially in meeting the local needs from energy in the State of Kuwait.

In the field of refining and marketing abroad, KPC managed through Kuwait Petroleum International (KPI) to penetrate the Asian markets whose economy is rapidly growing. Thus, it took part in the project of petrochemical complex and refinery which is known as Nghi Son Complex in Vietnam, as the percentage of achievement reached 41% until March 31, 2015. In addition, it is expected to complete the project by the end of 2016 and start producing commercially in July 2017.

It is worth mentioning that the percentage of the operational revenues which KPI achieved reached about 70% despite the negative impacts of the oil prices' decline on the refining sector. In fact, KPC managed successfully to boost its existence in the international markets through signing spot contracts and long-term contracts with the Chinese markets; besides penetrating new markets in Malaysia, Philippines, Brazil, Italy, Indonesia and Thailand.

With regard to research and technology field, KPC is keen on reinforcing capabilities and experiences in such essential field; accordingly, it has taken serious steps in allotting the roadmap of establishing International Center for Research and Technology in the State of Kuwait.

As for Health, Safety, Security and Environment (HSSE) field, KPC and its subsidiaries are keen on applying the international environmental, safety and security criteria on individuals

and assets. For example, Kuwait Oil Company (KOC) managed successfully to reduce the percentage of burning to 1.12%. In addition, 'Al-Qout' Tanker was chosen as the best oil tanker in 2014 in terms of design, operation efficiency, and protecting environment by Marine Technology Report. Also, Kuwait National Petroleum Company (KNPC) registered the flame gas recovery project in Mina Abdullah Refinery. It is considered the first of its kind in the country under the item of wide-range projects regarding the mechanism of clean development.

Believing in the importance of manpower element and its role in development and prosperity, KPC has offered a large number of distinguished internal and external training programs to develop and improve the skills and efficiencies of the national personnel. Thereof, it carried out proficiently 1116 training programs in participation of 18902 employees from the oil sector. Moreover, it took part in training about 96 students from the university and the applied colleges as part of its social responsibility towards the society. It further provided scholarships for 20 Kuwaiti students who graduated recently from the secondary stage including the sons of the oil sector's employees and from outside the sector too.

KPC is further keen on underpinning its image and reputation in media; consequently, it launched the second phase of the 2030 communication strategy. Moreover, it launched the media plan which is aimed to support the positive index of news published in newspapers. It also organized field visits for journalists to let them be acquainted with the activities of the oil sector. Add to this the press conferences and the meetings organized for MPs to be familiar with KPC strategy and the new developments taking place in the oil sector particularly oil prices.

Finally, I would like to extend appreciation to HH the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, HH Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, HH Prime Minister Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah for their infinite support to the oil sector to keep the journey of success, devotion and development ongoing. I extend appreciation also to KPC board members for their incessant efforts exerted to achieve successfully KPC strategic directions as well as fulfilling prosperity for KPC and its subsidiaries.

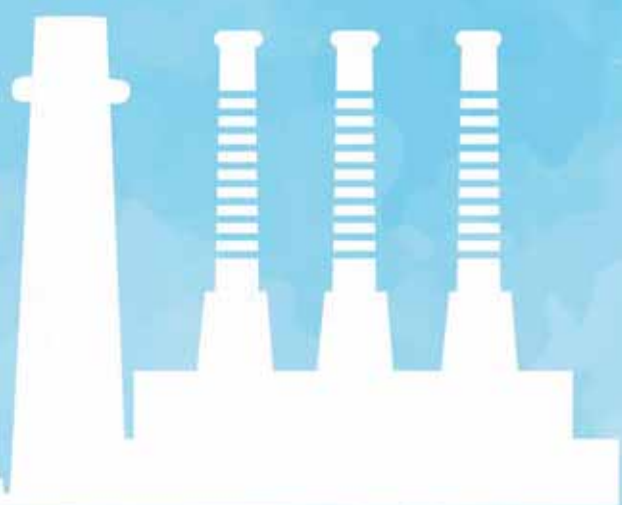
Dr. Ali Saleh Al-Omair

Minister of Oil, State Minister for Parliament
Affairs, Chairman of KPC board of directors

The financial performance of the financial year ended on 31 /3 /2015

- The consolidated revenues of KPC and its subsidiaries during the financial year which ended on March 31, 2015 are estimated at KD32.727.9 million; KD31.890.9 million of which are revenues of current operations, and KD837 million are other revenues. Meanwhile, the accrued expenses are estimated at KD31.474.1 million.
- The consolidated profits reached KD1.253.8 million – compared to KD1.488.2 million during the financial year 2013 / 2014 –; KD732.4 millions of which are profits of operation compared to KD1.712.2 million in the financial year 2013 / 2104, besides KD429.3 million represents the revenues of investments compared to KD597.6 million during the financial year 2013 / 2014.
- The revenue of the average invested capital reached 5.7% compared to 7.5% during 20132014/; whereas the total average of shareholders' rights reached 5.9% compared to 7.7% during 2013/ 2014.
- The total of assets reached KD33.711.9 million compared to KD32.016.7 million during 2013 / 2014.
- The total amount of shareholders' rights reached KD22.336.8 million compared to KD20.290.1 million during 2013 / 2014; thus, the hike is estimated at KD2.046.7 million because of increasing the general reserve by KD1.253.8 million due to keeping the profits of the financial year, increasing the reserve and renewing properties and installations as well as equipments by KD345 million. Add to this the success in increasing the net of change in the fair value by KD584.4 million; besides reducing the non-control stocks by KD1.6 million and reducing the foreign exchange reserve by KD78.4 million.
- KPC managed to finance its current capitalistic projects by self-resources, as the amount of investment in the fixed assets reached KD2.843.9 million during the financial year 2014 / 2015 compared to amount collected in the financial year 2013 / 2014, as it reached KD2.203.5 million.





Activities

Domestic Activities

1-Exploration & Production

Ever since KPC set in place its long term strategic plan for 2030, which aims to increase its crude oil production capacity to 4 million bpd by 2020, it has been working diligently to gradually achieve this goal, and keep pace with the latest developments in the scientific research, prospecting, exploration, drilling and production domains.

During the Fiscal Year (FY) 2014/2015, the average crude oil production in the State of Kuwait amounted to 3.042.3 million bpd, which is a decrease compared to the FY 2013/2014 with a production of 3.153 million bpd - this includes both joint operation areas (Al-Wafra and Al-Khafji).

The primary cause lies in the decrease of production capacity in northern Kuwait for the following reasons:

- Delays in the contracting process of drilling towers and new wells maintenance because of the high prices presented for drilling towers and deep drilling maintenance, in addition to holding additional negotiations with contractors regarding some of the developmental drilling towers.
- Instability of electric current provided by the Ministry of Electricity & Water distribution points repeatedly, which influenced the performance of 429 electric submersible pumps and partially halted them, in addition to the accumulation of electric submersible pumps as a result of a delay in the related draw units/maintenance towers arrival.
- The need to shut down some wells for reasons related to reservoirs pressure.
- Delay in secondary recovery means implementation in both areas of northern Kuwait and southeast Kuwait as:
 1. Partial operation of water pumping and injection in northern Kuwait area was accomplished in April 2014, whereas full operation was completed during August 2014.
 2. There was a delay in the water injection project in south and east Kuwait (Wara PMP) and it is expected to be completed by September 2015.

KPC focused heavily on free gas production, as the capacity of non-associated (free) gas witnessed a decrease compared to last year's production of 139 million cubic feet per day, as production reached 127 million cubic feet per day during the FY 2014 / 2015. This came as a result of implementing recommendations of developing and enhancing the Early Production Unit (EPF-50) to increase gas production in cooperation with Shell Company.

And the total daily production capacity of associated gas and non-associated (free) gas during Exerted efforts to decrease gas flaring at fields led to fruitful results, as KOC's ratio of gas flaring amounted to 1.12% of gas production rate for the FY 2014 / 2015, compared to the goal ratio of 1.20%.

KPC's achievements weren't confined to the aforementioned rates of crude oil, free and associated gas alone; it is accomplished through a number of significant local achievements during the FY 2014 / 2015, most notably:

- Several contracts were awarded and signed to deliver 50 drilling and maintenance towers for the company's different operation areas.
- KOC signed contracts to establish 3 gathering centres in its operation areas north of Kuwait, which are gathering centre-29 with Petrofac at a value approaching 194 million Kuwaiti Dinars, gathering centre-30 with Larsen & Toubro with a value of about 240 million Kuwaiti Dinars and gathering centre-31 with Dodsai at a value of about 228 million Kuwaiti Dinars.
- The heavy oil project of Lower Faris Reservoir was signed in January 2015 to produce 60 thousand bpd with Petrofac, at value of about 1.2 billion Kuwaiti Dinars.
- The new gathering centre 16 was inaugurated in west Kuwait operations area, which will enable maintaining the crude oil production capacity in Al-Manaqeesh Field in accordance with the company's strategic plan.
- The water processing and pumping project of the northern fields (EWTIP) was signed with Dodsai in September 2014 at an approximate value of 267 million Kuwaiti Dinars. This will contribute to an increase in the injection production capacity of northern Kuwait area, and thus, increase rates of crude oil production and development of the fields' reservoirs.
- Applying the recommendation to develop and enhance the early production unit EPF-50 to increase gas production in cooperation with Shell. These enhancements contributed to increasing oil and gas processing capacity in accordance with the gas daily production rate, which reached its highest peak during January and February 2015, amounting to 175 million cubic feet, in addition to the highest production mean approaching 66 thousand barrels of light oil in January 2015, which is considered a significant achievement for the unit production when taking its production capacity into account.
- The ratio of gas flaring amounted to 1.12% of gas production rate, compared to the goal ratio of 1.2% that isn't to be exceeded. It is also the lowest in the company's history. Moreover, the company recorded the lowest gas flaring ratio in its history during March 2014 at 0.50%.
- exploration well in Bahith Field, north of Kuwait, which produced an oil flow of about 1200 bpd, and 2.89 million cubic feet of gas per day during April 2014.
- Testing Om Naga well at Lower Faris Reservoir, and exploring a confirmed amount of

heavy oil in June 2014.

- Exploration of Raksa field, located north east of Kara' Al-Maroh field in west of Kuwait. This was accomplished by drilling the first oil well in this field, and preliminary test of the well indicated the presence of commercial amounts of oil and associated gas from Al-Marat reservoir at the Jurassic layer.
- Light oil discovery in Kabd, Om Ilroos, and Matria fields, as well as oil discovery in Bahra and Katnia fields.
- Drilling two test wells - one is a production well (Sabriyah-0559) and the other is dedicated to injecting chemicals (Sabriyah-0561) as part of the Enhanced Oil Recovery (EOR) Project in Al-Mawdood layer, Al-Sabriyah field.
- Five exploration reservoirs were transformed into developed wells compared to the annual goal of two transformed reservoirs only.

Heavy oil and free gas development activities:

In line with the intensive research activities carried out by the corporation, and distinguished technical processes it applied to enhance the production of crude oil, free gas and associated gas, the company dedicated immense focus on processes aiming to develop heavy oil and its production, using the best means applied in producing countries, and the latest styles acknowledged internationally. KPC was able to reach a number of milestones in this domain, most importantly:

- Signing heavy oil development and production contract (EF/1852) to produce 60 thousand bpd on 28th January 2015. The detailed designs stage has started.
- Work is underway to sign a contract with the Utilities Development Company (tender number RFP-2019001) regarding design, supply, construction and operation works of the environment infrastructure facilities to pump drainage water to KOC facilities, which will be processed to produce needed steam to inject in the reservoirs. The contract is expected to be signed during the first quarter.
- A contract was signed to construct an electrical power transformation station EF/1855 with a capacity of 72 megawatts/132 kilovolts on 31 March 2015. The project aims to supply the main project and its facilities with needed electricity, and detailed designs and execution phase has started.
- Construction works are underway for the pilot project to produce heavy oil via successive/continuous steam injection. The project is expected to be operational during the first quarter.
- 14 deep wells were drilled to reach the aimed non-associated gas volume, and execute the company's exploration program.
- 10% of the engineering design stage was completed for the Jurassic gas wells development project in northern Kuwait (the second phase), whereas the annual goal of

the Jurassic gas wells development project (the third phase) was completed: it aimed to drill three non-conventional wells, complete three fracture jobs in the non-conventional reservoirs and finish the Stage Gate 1.0 documentation.

2-Crude oil refining, gas liquefaction and domestic marketing

The company's three refineries maintained their professional and competent processes, while focusing on supporting health, safety and environment protection standards for the sake of both individuals and assets safety. Total refined volume reached about 316 million, equal to a daily rate of 865.9 thousand barrels, compared to 294 million, or a daily rate of 860.2 thousand bpd, in FY 1314/, which forms a slight increase of 07%.

Refining rates in the three refineries in the last five years were as follows (daily rate measured in thousand barrels):

Refinery	2010 / 2011	2011 / 2012	2012 / 2013	2013 / 2014	2014 / 2015
Shuaiba	198.3	177.7	193.9	192.7	186.6
Mina Abdullah	262.2	247	272	255.6	267.7
Mina Al-Ahmadi	431.8	416.9	451.6	411.9	411.6
Total	892.3	841.6	917.6	860.2	865.9



Gas liquefaction

The corporation sought to support its activity in this domain. Total amount for FY 2014/2015/ decreased to 5692 thousand metric tons, compared to 6063 thousand metric ton of last year. This change is attributed to received amounts and their qualitative content.

The previous achievements in refining, local manufacturing and gas liquefaction activities were part of the important milestones of the corporation in this field, which includes the following:



- **The New refinery and clean fuel projects**

Regarding Al-Zour refinery, the first stage of the automatic control systems was completed through the contract signed with Honeywell American Company. Works to prepare the site location started at the end of March 2014, and the project is expected to be finished by August 2019. Actual completion rate is at 9.92% compared to 10.85% planned.

As for the clean fuel project, approval of both the company and KPC boards was attained to complete the funding process. The financial advisor presented a detailed work plan for this process, including the structure and mechanism of the project funding, as well as the optimum investment rate. Furthermore, the project's financial counseling contract with Al-Watani Investment was signed in September 2014. And it will deliver executive counseling services for 12 months, and the project is expected to be fulfilled in April 2018. Actual completion rate is at 21.8% compared to 13% planned.

- **Establishing the fourth and fifth line projects to produce LPG**

These projects aim to keep pace with KPC's strategic orientation which aims to increase associated and non-associated natural gas production, and to optimally and completely take advantage of gases resulting from the exploration and



production processes.

The fourth unit project has been completed, and test operation processes were initiated. It was designed with a capacity of 805 million cubic feet per day, and 106 thousand barrels of condensers. The goal is to process the expected increase of gases and condensers resulting from oil and gas fields, and transform them into exportable LPG and separate Methane and Ethane gases.

As for the fifth unit, the engineering, supply and construction tender was floated in September 2014 after attaining the approval of the company and KPC's boards to start the project. The tender was closed in March

2015 and offers were studied. Recently, the tender was awarded to one of the companies.

- **Establishment of natural liquid gas importing facilities in Al-Zour area**

This project execution comes in line with fulfilling KPC 2030 strategic plan related to meeting the local market fuel demand in the long term, and increasing processes flexibility to meet increasing seasonal fuel demand for power generation stations. Recently, the study of preliminary engineering design was concluded with a capacity of 300 billion British thermal unit/day of natural gas to supply the local network.

Approval of the company and KPC's boards to start the project was recently attained after studying the preliminary engineering design.

- **Establishment of new facilities and upgrading current ones of sulfur handling in Al-Ahmadi Port Refinery**

This project aims to increase the ability of handling sulfur amounts expected to be produced from current and future units. This will be achieved by establishing new facilities to handle sulfur and enhancing/upgrading current sulfur handling equipment in Al-Ahmadi port to increase their capacity as well as loading average so bigger ships can be used in exportation, in addition to HSE related works in accordance with the requirements of the Kuwaiti Environment Public Authority. The engineering, supply and construction works contract to start this project was signed in July 2013, and it's expected to be completed by June 2017.

- **Establishment of oil products warehouse project in Al-Mitla' area in addition to product transport lines from refineries**

This project also comes to execute the study recommendations of the future expectations of strategic products demand in the local market until 2030, and is considered the second stage to meet the local market demand.

The study of preliminary engineering design started in August 2014 after attaining the projects committee approval of the feasibility study results. Studies of evaluating the environmental impact were concluded and delivered to the Kuwaiti Environment Public Authority. Moreover, the project area given by Kuwait



Chemical Fertilisers

KPC's attention to the petrochemical industry has been ongoing, evidenced by the excellence in Kuwait's chemical fertilisers for many decades, and it sought to promote its activity in this regard, and continuously develop the production operations.

With regards to chemical fertilisers, local production is represented in the plants producing ammonia and urea. This year, production of ammonia plants amounted to around 547 thousand metric tons, a decrease of 17% compared to the previous year. Meanwhile, the urea plants produced 868 thousand metric tons, a decrease of 16% in relation to the previous year. The volume of ammonia sales amounted to 34.298 thousand metric tons, whereas the volume of urea sales amounted to 865.378 thousand metric tons. The decrease is attributed to the regular maintenance of the plants as per the annual plan.



Municipality was attained along with KOC's approval to establish oil product transport lines of its areas, in addition to the Water & Electricity Ministry approval to supply the warehouse with water and power. The project is expected to be finished in December 2020.

3- Chemical Fertilisers & Petrochemicals

• Petrochemicals

With regards to petrochemicals, the polypropylene plant production stood at 135,000 metric tons, a decrease of 9% compared to the previous year. Whereas sales volume amounted to 136 thousand metric tons, which is a decrease of 8% compared to last year.

Polypropylene production during the last five year

Year	2010/ 2011	2011/ 2012	2012 /2013	2013/ 2014	2014 /2015
Polypropylene production (thousand metric ton)	151	145	148	144	135

Each of the Petrochemical Industry Company (PIC) and Dow Chemical Company hold 42.5% of the shares of EQUATE Petrochemicals Company, while the remnant shares are held by local private sector companies.

The Kuwait Olefins Company (TKOC) production, of which PIC share is 42.5%, amounted to 815 thousand metric tons of ethylene glycol, an increase of 11% compared to last year. Meanwhile, the volume of ethylene glycol sales amounted to 810 thousand metric tons, an increase of 10.5% compared to the previous year.

The Kuwait Aromatics Company (TKAC), where PIC holds a 40% share, produced 884.3 thousand metric tons of paraxylene, an increase of 5.3% in comparison to the previous year. Whereas the volume of paraxylene imports amounted to 887.8 thousand metric tons, an increase of 3% compared to the previous year. Meanwhile, the production of benzene amounted to 282 thousand metric tons, which represents a increase of 0.8% compared to the previous year.

The Kuwait Styrene Company (TKSC), where PIC share is at 57.5%, produced 525.7 thousand metric tons of styrene, which represents an increase of 5.3% compared to the previous year. Meanwhile, the volume of sales amounted to 524.6 thousand metric tons, an increase of 3.3% in comparison to the previous year.

At a parallel level of the achievements accomplished by KPC's petrochemical sector in production, sales and profits, there are other important achievements, including:

- Achieving the highest returns for selling ammonia in the Asian market with Mitsubishi Company, as well as raising the company's shares in the Latin American market by 100% compared to last year. Moreover, the company had zero complaints/claims on fertilisers in addition to renewing the AQIS certification related to Australian markets.
- Concluding the scheduled maintenance for fertiliser plants which started on 17th October, 2014 successfully: The capital projects during the annual maintenance were completed, and the company also started execution of the Urea stockpile management. Furthermore, it attained the ISO 500001 Energy Management certification.
- An LTA was signed with Jindal Europe for 36 thousand tons of polypropylene starting from 12015/1/ for a year. It also signed another LTA with ILPA Europe (Italy) for an amount of 10000 tons starting from 12015/1/ for a year.
- Paraxylene production amounted to 884.39 thousand metric tons, and Styrene production reached 525.736 thousand tons, which are record numbers compared to last years.
- The company issued its first Communication on Progress (COP) report, and sent it to the UN Global Compact (UNGC) to comply with the related treaty. The Company also launched 2014 IT Expo with the sponsorship and preens of KPC's CEO.

4- Marine Transport

This year, KOTC's fleet transported 29.9 million metric tons of crude oil, petroleum products and liquefied gas, an increase of 60% compared to the previous year.

Meanwhile, the volume of loads transported from Kuwait amounted to 22.5 million metric tons, which forms an increase of 109%. As for tankers operation rate, it increased 2.03% this year compared to last year as it reached 98.18%.



During FY 14 / 15, KOTC took delivery of 9 new tankers: three very large crude carrier, with a load that amounts to 317 thousand metric tons each, as well as an oil products tanker (Aframax) with a load of 109.7 thousand metric tons from a from Daewoo, South Korea, and three oil products tankers (MR) with a load of 46.3 thousand metric tons each form Hyundai, South Korea as well.

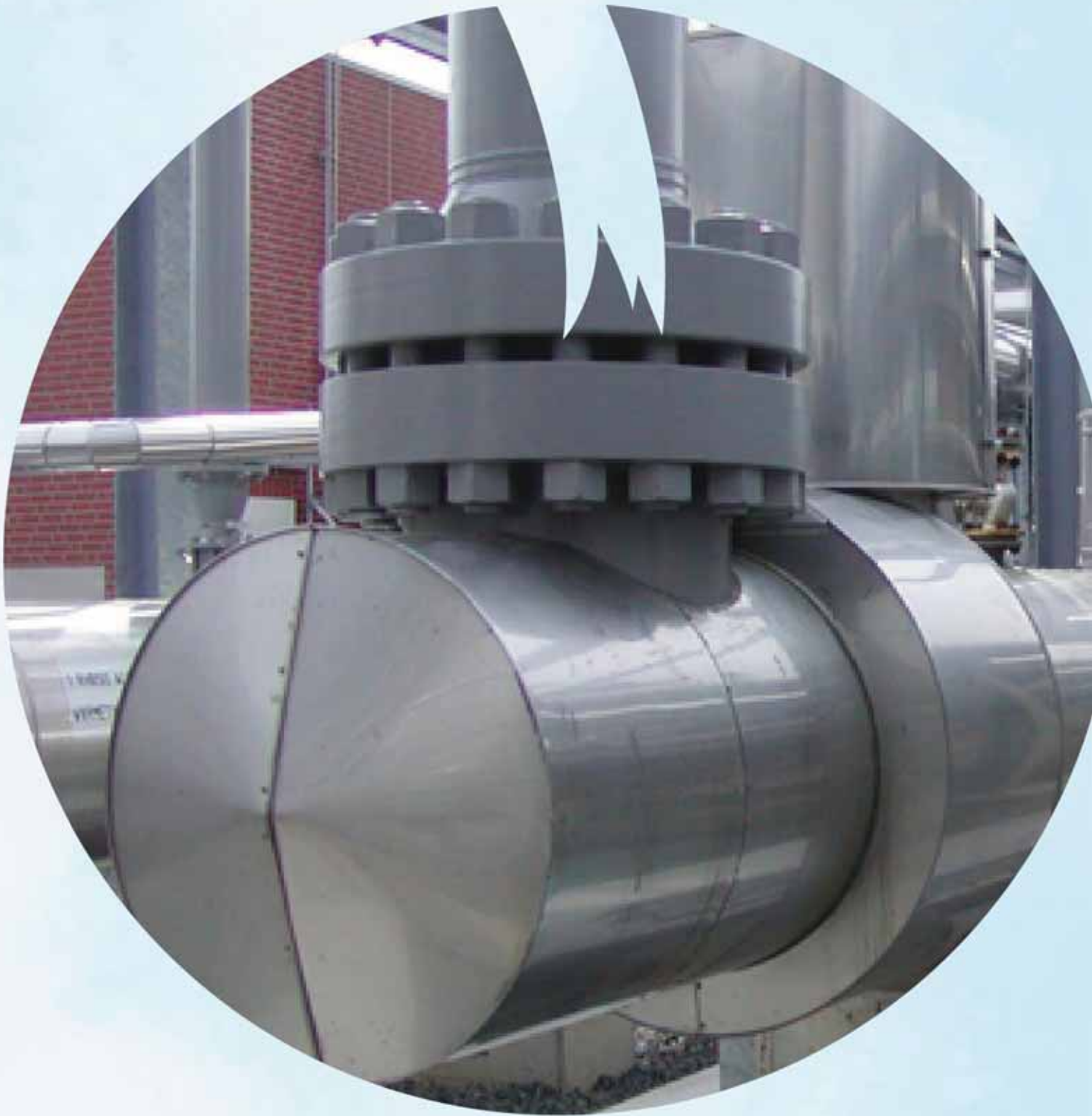
Furthermore, KOTC made a number of significant achievements in the domain of marine transport, most importantly are the following:

- Tanker Al-Kout, owned by KOTC, was chosen by Marine Technology Report as the 2014 best tanker in the world in terms of design, operation efficiency and maintaining the environment. Moreover, tanker Al-Dasma, also owned by the company, was chosen as the best environment-friendly tanker by Maritime Reporter and Engineering News.

- Tanker Burgan repelled an attack by a number of pirates in the Gulf of Aden during its journey from Al-Ahmadi port to Horizon port in Djibouti, carrying 40.303 tons of jet fuel, as the tanker crew fended off the attack, and demonstrated great efficiency and skill in dealing with the incident, which ended peacefully. The Emergency Team at company's HQ provided the necessary support in cooperation with the Indian military forces, which were located about 6 nautical miles during the incident, and sent a helicopter to the tanker to search the area around it, which contributed to confronting these pirates.
- KOTC signed an agreement to mitigate pollution with PRES-VAC Engineering, a Danish company, which is considered the first of its kind. This agreement demonstrates the company's strict commitment to adhering to all marine laws and regional/international environmental protection systems. This came within a mutual cooperation protocol between the two companies.
- LPG filling plant in Um Alaish area, north Kuwait, was inaugurated to serve the local market, and support the current plant located in the south in Al-Shuwaiba Industrial Area, with a capacity of 7200 thousand cylinders per hour. It also contributes to providing this vital resource and fulfills Kuwait's gas needs until 2030.
- **Total loads transported to world ports*:**

Year	2011/2010	2012/2011	2013/2012	2014/2013	2015/2014
Crude Oil	5.58	10.45	14.68	12.43	20.58
Petroleum products	8.90	7.16	6.72	5.04	8.14
Liquefied Gas	1.41	1.28	1.27	1.18	1.18
Total	15.89	18.89	22.67	18.65	29.9

*Loads in Million Metric Tons



5. Aviation Fueling

During FY 2014 / 2015, Kuwait Aviation Fueling Company (KAFCO) scored a net profit of 8881851 dinars compared to 8003175 dinars in the previous year, an increase of 11% as a result of higher sales and lower total costs: consumption decreased to 11554805 Kuwaiti dinars compared to 11785457 Kuwaiti dinars in the previous year as a result of a decrease in operational costs.

The company's fuel sales for A-1 and JP-8 airplanes increased to 810271413 liters in 14 / 15 compared to around 736989303 liters in FY 13 / 14, which forms an increase of about 10% as a result of an incline in aviation companies fuel demand.

The number of airplanes fueled during FY 2014 / 2015 came to 46261 compared to 43583 airplanes in the previous year, an increase of 6%.

Following are the achievements of the company in 2014 / 2015:

- The company signed 4 new contracts to supply its planes with fuel at Kuwait's International Airport, and at the same time, maintained its distinguished services for other clients, giving it an 84% rate of clients' satisfaction, in addition to not registering any justified complaint during the year.
- Signing an agency agreement with KPI to become an agent in Kuwait for Kuwait Petroleum Belgium under the brand name (Q8).
- Renewing the contract with the Ministry of Defense to sell and supply airplane fuel to air bases and the coalition forces, and operate fuel stations at Ahmad Al-Jabir and Ali Al-Salim air bases.
- Indirect supply of KPC clients rate (DLA) increased by 82% compared to the last fiscal year.
- The company profit margin exceeded 11% compared to the last fiscal year.





Global Activities

Since their start, KPC and its subsidiaries did not confine themselves to the local market and recede to a narrow work corner within Kuwait, but had a broad vision with global dimensions, whether in regard to exploration/production operations, refining, marketing and external supply or petrochemicals.

1. Exploration and Production

With regards to exploration and production, the daily production rate in 2013 of the Kuwait Foreign Petroleum Exploration Company (KUFPEC), a KPC subsidiary, amounted to 74 thousand Barrels of Oil Equivalent (BOE), which is the same as 2014 / 2013.

The following table demonstrates the daily production average for the last five years (BOE):

Year	2010	2011	2012	2013	2014
Average Daily Production	77.512	72.186	74.875	74.778	73.565

At the end of FY 2014, the hydrocarbon reserve stood at around 467 million BOE, including 158 million BOE added by acquiring new assets in Canada and Australia to achieve its 14/ 15 strategy.

The company reaped net profit of \$42 million by the end of 2014, whereas oil and gas revenues reached \$1.472 billion.

Furthermore, KUFPEC acquired a number of international projects with variable shares to partially meet local fuel demand. Following are some of the most prominent accomplishments during the past fiscal year:

- Increasing its share in (Wheatstone – Iago) mutual project in Australia of 8%, as well as in Wheatstone liquid natural gas project (6.4%), which will enable Kuwait to benefit from this project by importing liquid gas to partially meet local fuel demand.
- Acquiring a 30% share of Chevron's total assets related to developing shale resources rich in oil condensers at Duvernay, Canada, for \$1.5 billion paid over a



period of time. This joint venture comprises about 330000 acres of privileges which are operated by Chevron in Kaybob area rich in oil condensers at Duvernay, Alberta.

- Joining 3 new exploration projects in China with a share of 30%.
- KUFPEC signed an external funding deal with a value of \$1 billion, with an additional option to raise it to \$2.5 billion.
- Production from Blanaves oil field in Australia began in mid-August, 2014. KUFPEC production share reached to 6964 oil barrels.
- Completion of manufacturing and installing the floating storage and loading platform in Shandor field, and production operations of the project's second phase began in September 2014.

- Achieving 3 successful gas explorations which added about 5 million BOE of new reserves (Blackchool-1 well in WA-49-L Julimar, Australia, RK10X and Azurite 1X wells in Ras Kanayis, Egypt)
- Locally, Kuwaiti employees' rate is 70% of total number of employees. It also exchanged 20 of best practices appliances, and participated with the Exploration & Production Sector in forming five specialised teams to discuss and exchange experiences in several domains.

2. Refining, Marketing and Foreign Supply

Kuwait Petroleum International (KPI) is still focusing on investment in the fast-growing markets in Asia through expansion in the domain of refining, petrochemicals and marketing (e.g. retail sale), on condition that KPI provides the refineries where it is investing with Kuwaiti crude oil on the long term. Monitoring other markets is ongoing to know the latest developments and the possibility of availing investment opportunities there.

In China, KPI aims to establish a new refinery with a capacity of 300 thousand BPD, and in October 2014, the project team completed updating the project's feasibility study on the basis of new data, as several factors turned out to impact it in the future if there was no agreement to handle them with the Chinese partner. The most important factor is the adoption of international prices of the refinery's petroleum products. The project team showed the updated results of the feasibility study, and provided recommendations to the higher management, the company's board and KPC board. On this basis, it was agreed upon to establish a mutual committee from the Kuwait and Chinese sides to discuss fuel products price, find suitable solutions and available alternatives. The company is communicating with the related parties of the Chinese side to speed up the procedures of the committee formation and hold its first meeting at the nearest time. Based on the committee's decisions, the project's feasibility study will be reviewed and a suitable investment decision will be taken by KPC's board. If the final investment decision is position, the partnership basis will be discussed with all the partners, and preparations will be done for the partnership deal.

As for Vietnam, and after establishing the company holding the project of oil refinery and the petrochemical complex – Nghi-Son, the front-end engineering design



(FEED) process was accomplished as scheduled, in addition to choosing.

The project management consultant (PMC) and signing the construction contract with the EPC contractor. Furthermore, the final investment decision was obtained by KPC, as well as completing the project financing mechanism in agreement with the funding banks, and the EPC stage began in 22 July, 2013. By the end of March, 2015, the total project completion rate reached to 41%. Construction of the refinery and the petrochemical complex is expected to be completed by the end of 2016, and operation will commence in July 2017. Construction of the refinery will coincide with establishment of a private mutual company dedicated to products marketing in Vietnam.

As for Europe, recovery signs are beginning to surface according to economic indicators as the GDP was positive for the region over the past months, and all KPI operations in Europe achieved an operational profit during FY 2014/2015: KPI sales increased to 406

thousand bpd, an increase of 18% compared to last year, and the total operational profit reached \$279 million dollars.

It's noteworthy that Q8 Aviation and OKQ8 have reaped record profits never seen before since the start of their operation: OKQ8, which KPI has a 50% share in, was able to raise its operational profits by 11.6% compared to the approved budget, in addition to operating Luxembourg station, the third largest gas station in the world, which returned a profit that exceeded the projected budget.

The company's branch in Italy was completed by acquiring all Shell assets in Italy, and the market share increased to 17.4%, making KPI the second largest fuel distributor in Italy. Regarding the refining sector, the global decline of oil prices has negatively influenced the oil industry, especially the refining sector. However, the company's refineries were able to attain operational profits: Milazzo Italian refinery made the necessary measures to reduce operating expenses and increase profit margins, resulting in increasing profits by 70%. As for Europort refinery, which achieved positive operational profits last year, and as per KPC's board decision, the company will conduct a complete study to sell it or transform it to a storage port in case there was no selling opportunity.

3. Petrochemicals

Gulf Petrochemical Industries Co.(GPIC):

GPIC production of its fertilisers (urea, ammonia and methanol) amounted to 1.601 million metric tons, an increase of 4% compared to the previous year. Whereas the exported quantity of these products amounted to 1.229 million metric tons, an increase of 3% in comparison to the previous year.

ME Global (HQ-Canada):

ME Global production amounted to 1.215 million metric tons this year, an increase of 3% compared to the previous year.

ME Global BV(HQ-Dubai):

The production of PET at Equipolymers plants amounted to around 307.595 thousand metric tons, increasing 0.4% over that of the previous year. Furthermore, the volume of sales amounted to 3.318 million metric tons, a 1.7% increase compared to the previous year.



International Marketing

Despite the projections decline of Kuwaiti crude oil prices from \$104 a barrel for FY 13/14 to \$81 a barrel for FY 14/15, along with the decrease of oil products prices in all global markets, KPC continued to enhance its presence and increase its share in many of them. IN the Chinese market, the company agreed to increase Kuwaiti crude oil volume exports to the



largest Chinese company to reach 300 thousand barrels per day for ten years, in addition to delivering shipments using C&F method in order to optimally use KOTC fleet. Also, for the first time in KPC history, it agreed with another Chinese company to seal several instantaneous deals that will transform into long-term contract. Moreover, KPC entered the Philippines market by signing a new contract with the largest refining company to supply 65 thousand bpd. KPC also increased its pioneering presence in the Korean market by signing a long-term contract for ten years with some of the largest companies to supply 200 thousand bpd. The contracted volume of another global company was increased to 200 thousand bpd of crude oil for three contractual years. To expand into the European market, a contract was signed with SUMED, an Egyptian company, to store Kuwaiti crude oil in Sidi Kerir tanks, and create a new pricing system for oil shipments headed to the Mediterranean Sea clients, like KPI's Milazo refinery. KPC also seized the opportunity of LNG market prices decline, and signed a new mid-term contract with a pioneering global company at competitive prices to meet power stations' needs, which resulted in substantial monetary savings for the state.

As for petroleum products, several contracts were signed to sell naphtha product in the Thai and Indonesian markets for the first time in KPC's history, and increasing KPC shares in the Japanese market by increases contracted amounts. KPC also entered new markets to sell LPG, and it signed a new contract in the Vietnamese market to supply gas for the first time in its history. IT also maintained its jet fuel and gasoline markets, while committing to employing KOTC fleet in these contracts amid fierce competitiveness and hard market circumstances. Gasoline and jet fuel contracted amounts were raised in the Ethiopian market in line with KPC's strategic policy of being present and expanding into promising markets.

Regarding special petroleum products, and petroleum coke in particular, KPC entered the Indonesian market as a new one, increased exports to the Egyptian and Bahraini markets and bolstered its presence in the North African market with increased sulfur product sales.



Supporting Activities

Since supporting activities at KPC represent an essential element that is indispensable for carrying out the duties assigned to it, the national responsibilities it is assuming and the distinct deeds it is accomplishing inside Kuwait and abroad, the corporation endeavors to give such activities great consideration and attention that suits its pursued major role.

Supporting activities are represented in four domains; Health, Safety & Environment (HSE), Research & Technology, Human Resources (HR) and Social & Information Services.

1- HSSE

KPC and its subsidiaries dedicated their utmost attention to maintaining HSSE. The strategy to manage the oil sector activities was set according to the best and most appropriate international standards to guarantee preserving the environment, as well as health and security for the staff in any place the sector activities are being carried out locally and globally, in addition to the safety and security of the oil sector facilities. This report aims to outline the efforts and accomplishments of KPC and its subsidiaries in the HSSE domain, as this year witnessed a distinct record of achievements and international awards, as well as executing many HSSE awareness projects and programs, most notably:

- KOC implemented a great deal of strategic projects to reduce flaring percentage to 1.12% in FY 14 /15
- Completion of gas flaring reduction project in Al-Wafra and increasing KOC exported gas volume: flaring was reduced from 66% to 52%, and exported gas reached 14.5 million cubic feet per day. The third phase of engineering studies is also underway to choose the best option in the central gas unit utilisation of Al-Wafra operations, which aims to reduce flaring to 1%.
- KGOC, KNPC and KOC signed a memorandum of understating to transport 40 million cubic feet per day of associated gas in Al-Khafji Joint Operations area, as well as 6600 barrels of condensers per day for KNPC via KOC.
- In May 2014, KNPC registered the flare gas recovery project in Abdullah Port Refinery as the first project in Kuwait under the large scale projects category for Clean Development Mechanism, which came in accordance with the UN framework treaty. It is expected that the project will in Al-Ahmadi and Abdullah Port refineries will reduce greenhouse gas emissions by about 140,000 tons of carbon dioxide annually
- In November 2014, oil leaks were processed at the tanks area in KNPC's Abdullah

Port Refinery to make the area suitable for future projects, and reduce oil hydrocarbons content in it to less than 1%.

- KAFCO completed a study and re-approval project related to risk analysis process (HAZOP) for the company's new warehouse by an external specialised investment company.
- Signing an agreement between KNPC and KOC to reuse liquid waste processed at KNPC's processing facility in KOC's different operations.
- On 1 March 2015, PIC completed the third phase of the largest voluntary environmental project in Kuwait with the Environmental Voluntary Charity, which aims at Greening the land borders of Kuwait under the name «Kuwait Green Wall», which follows the land borders of Kuwait for 450 kilometers, by planting half a million trees to increase the green footprint of Kuwait. It is expected to complete the Green Wall of Kuwait in 2020.
- PIC recorded more than 16.7 million working hours without lost time incidents until 19 November 2014, in addition to no environmental incidents. KAFCO also achieved 1.9 million work hours with on work casualty incidents, whereas KNPC's number reached to 72.57 million hours. Moreover, KOTC recorded 1.8 million nautical miles with high competency as no marine pollution or navigational incidents were recorded.
- KOTC's fleet is fully compliant with the requirements of the International Maritime Security law (IMS), as well as standards of ISO9001:2008 (quality), ISO14001:2004 (environmental management) and OHSAS 18001:2007 (occupational health).
- PIC attained the Golden RoSPA-2014 Certificate in the domain of safety and occupational health, as well as a bronze award in MORR, Managing Occupational Road Risk.
- PIC attained OHSAS18001, ISO9001, ISO14001 and RC14001 certification without any violations.
- KPI and all its subsidiaries attained the Responsible Care 14001 certification.
- KPI's main office attained the ISO 22301: Business Continuity Management.
- KOTC's supertankers that deal with European ports are compliant with the Green Award Foundation requirements: these vessels are regularly inspected every year to attain the Green Award certificate (11 vessels).



- KPC and its subsidiaries (KOC-KNPC-KOTC-PIC-KAFCO-KGOC) signed a MOU with the Environment Public Authority on 11 September 2014.
- KNPC approved the integrated services contract for responding to oil spills, which serves its refineries and local marketing. It also utilised these services to support the Environment Public Authority with cleaning the shores in case of third party pollution.
- Establishing a crisis management centre for KGOC with direct visual connection links with KPC, WJO, KNPC and KOC.
- KUFPEC main office maintained the OHSAS 18001:2007 system for occupational health and safety after being externally inspected.
- KOTC revised and modified DANAOS to enhance incident reporting operations, as well as updating the incidents root causes specifications to get higher accuracy stats.



2- Research and Technology

- Carrying out 3 research projects with KISR to serve KNPC:
 1. Deep hydrogen processing to remove sulfur from gas oil feedstock of heavy Kuwaiti oil to produce sulfur-free diesel. The project was completed in 25 /5 /2014
 2. Evaluation of the OCR reactor of the sulfur removal unit from oil wastes in Abdullah Port refinery by using a pattern modelling reactor and monitoring using non-dispersive radioactive materials. The project was completed in 1 /12 /2014
 3. Overlapping effects of hydrogen sulfide and chloride on strain breaking of stabilised austenitic stainless steel. This project was completed in 25 /5/ 2014
- Continuing to work on a research project with KISR on the impact of feedstock and ammonia type on the performance of catalysts system used in the hydrocracking processes. The project serves KNPC.
- KPC and its subsidiaries Technology Roadmap was revised and updated to execute KPC 2030 research and tech strategic plan. Work has started on 7 research project in cooperation with local and international research entities.



- To build capabilities and expertise in the scientific research and technology management field in order to face technical challenges in the oil industry, part of the roadmap was set to establish the International Centre of Research and Technology of Kuwait's oil sector: the project design phase was concluded, global companies were chosen to be contacted to participate in the competition of the project's detailed and architectural design. Moreover, 25% of planned works for the project's execution phase were completed according to schedule.
- Work is ongoing on the second phase of the solar power tech development study to meet the Kuwaiti oil sector needs (execution of a pilot project). Detailed designs were prepared to install and operate pilot stations on the photoelectric level. Detailed designs are being prepared to operate a pilot station on the thermal level at chosen sites in the oil sector.
- The solar power tech utilisation team was formed, which aims to apply this tech in the oil sector, and enable KPC to play an effective role in saving power. The team developed a roadmap for solar power application in the subsidiaries, detailing challenges that might affect application and needed solutions to overcome them.



3- Human Resources

- Fast Track project execution, which aims to train distinguished national workforce on the leadership phase requirements via special internal and external programs
- HR Capability: a project for the HR 2030 Sourcing and Capability Development Initiative – IDAPS program which consist of 15 training programs scheduled based on a study by KNPC and the plan set by the Petroleum Training Centre
- Contributing to the society by training and qualifying students of universities and faculties (96 students)
- Achieving a 97% staff participation rate in HSE programs



- Setting the execution plan for the OCD initiative related to the policies and procedures of registering in the training programs of the oil sector
- Procedures of completing local/external training program, electronic downloading service for the reaction sheet and presentation where needed info and data is filled using K-world site, and clicking the link dedicated to job training and development
- Applying KNPC - Unified HR Technical Competency Model in accordance with KPC's 2030 HR strategy
- Preparing a report dedicated to job rotation related to the 2030 HR strategy, as well as employee engagement as a first step to start the project
- Executing 116 training programs with the participation of 18902 oil sector employees



- Graduating 191 trainees from KNPC's contractors staff training with mechanical specialization, 19 trainees with welding specialisation and 78 specialised in electricity

- Work is ongoing to study the document related to providing support services to training programs of KPC and its subsidiaries to modify them as requested by the Services and Commercial Department

- Developing team leaders skills in the oil sector (K-Team Project): The project aims to define the needed training needs to develop team leaders on the oil sector level as related to the unified general competencies of the oil sector employees
- Participation rate of team leaders in the Self-Assessment Questionnaire reached 97%, and managers' participation to evaluate their team leaders reached 98%, whereas team leaders participation in the Psychometric Tool stood at 96%. The total rate was 94% by 27 February 2015
- Completion of the development plan for all participating team leaders to deliver it to job development managers in all K-companies
- Admitting 47 employees in the study leaves system from KPC and its subsidiaries within 14 /15 announcement
- Admitting 20 high school students within 14/ 15 announcement from employees and non-employees sons. 5 are from employees category, whereas 15 aren't (society service)
- Inaugurating the e-site dedicated to study leaves in 282015/1/ for all oil sector employees, through which they were able to register for FY 1516/ from 3 /2/ 2015 to 21 /3/ 2015

4- Social and Media Services

- Applying the second stage of the 2030 communication strategy which comprised the following goals: social responsibility strategy, supporting media competencies, enhancing KPC's image and reputation, setting unified media work regulations, promoting the relationship with KPC's targeted segments
- Supporting the positive indication of news published by newspapers by launching an interactive media plan which included: organising field meetings for the newspapers staff to visit the oil sector complex/spring camp, holding introductory press conferences dedicated to KPC and its subsidiaries work developments and launching an initiative to cover KPC's external offices
- Launching a first of its kind publication directed towards parliament members that aims to introduce the latest developments of the oil sector mega projects
- Inaugurating the second phase of 'Nafti' project dedicated to instilling oil culture in the youth generation. It included holding 32 lectures for school students, organising two oil fairs at the Avenues and Discovery malls and organising the first oil spring camp
- Launching work projects to apply 6 Sigma methodology to enhance procedures of inaugurating new IT systems, as well as guaranteeing info security and confidentiality within KPC
- Address intrusion attempts of KPC's information network by applying the latest networking technologies related to information security
- Coordinating with the IT & Communication Organization Authority, American Embassy representatives as well as the NSA, and holding a workshop related to cyber security and infrastructure-related and sensitive bodies in Kuwait
- Organising enlightenment meetings with the parliament members regarding oil prices decline and KPC's followed strategy
- Aiding oil companies to overcome administrative challenges with governmental bodies
- Quick response to parliament members questions



**Consolidated financial statements
and independent auditor's report
for the year ended 31 March 2015**



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Independent Auditor's Report

**His Highness, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah
The Prime Minister and
Chairman of the Supreme Council for Petroleum
State of Kuwait**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Petroleum Corporation ("the Corporation") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 March 2015, and 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2015, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the Law Decree No. 6 of 1980.

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 Law Decree No. 6 of 1980. In our opinion, proper books of account have been kept by the Corporation and the accounting information given in the board of directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 March 2015, of the Law Decree No. 6 of 1980, that would materially affect the Group's activities or its consolidated financial position.

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

Kuwait:

Consolidated statement of financial position

as at 31 March 2015

	Notes	31 March 2015 KD'000	31 March 2014 KD'000 (Restated)	1 April 2013 KD'000 (Restated)
Assets				
Property, plant and equipment	5	13,953,181	11,678,046	10,575,251
Goodwill	6	103,853	92,302	61,565
Intangible assets	7	623,905	223,381	189,882
Deferred tax assets	14	199,175	174,721	25,231
Other non-current assets	8	69,342	228,399	232,883
Available-for-sale investments	9	6,814,130	5,944,774	5,133,398
Investments in equity accounted investees	10	785,683	725,803	570,804
Non-current assets		22,549,269	19,067,426	16,789,014
Inventories	11	1,302,466	2,275,850	2,131,212
Trade receivables	12	2,882,126	3,898,522	4,446,404
Other receivables and prepayments	13	1,502,278	1,434,254	950,715
Taxes receivable	14	17,535	27,580	29,812
Bank balances and cash	15	5,458,213	5,313,032	5,573,251
Current assets		11,162,618	12,949,238	13,131,394
Total assets		33,711,887	32,016,664	29,920,408
Equity				
Authorised and paid-up share capital		2,500,000	2,500,000	2,500,000
Statutory reserve	16	1,250,000	1,250,000	1,250,000
Capital reserve	17	232,945	232,945	232,945
General reserve	18	14,497,839	13,244,065	11,755,881
Reserve for replacement and renewal of property, plant and equipment	19	3,022,691	2,677,691	2,287,691
Remeasurement of defined benefit obligation reserve		(137,354)	(80,833)	(47,763)
Cumulative changes in fair values		1,022,054	437,610	463,417
Foreign currency translation reserve		(100,627)	(22,203)	(5,165)
Equity attributable to equity holder of the Corporation		22,287,548	20,239,275	18,437,006
Non-controlling interest		49,282	50,835	38,671
Total equity		22,336,830	20,290,110	18,475,677
Non-current liabilities	20	2,385,100	1,604,708	1,087,522
Trade payables		780,138	816,115	707,121
Other payables and accruals	21	1,575,128	1,707,316	1,909,765
Taxes payable	14	206,379	288,405	293,535
Amounts due to Ministry of Oil	22	2,452,366	3,334,064	3,470,842
Profit available for distribution	23	3,975,946	3,975,946	3,975,946
Current liabilities		8,989,957	10,121,846	10,357,209
Total liabilities		11,375,057	11,726,554	11,444,731
Total equity and liabilities		33,711,887	32,016,664	29,920,408

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

Nizar M. Al-Adsani
Deputy Chairman & CEOMohammed A. Al-Farhoud
Managing Director – Finance (Acting)

Consolidated statement of profit or loss and other comprehensive income

as at 31 March 2015

	Notes	2015 KD'000	2014 KD'000
Continuing operations			
Revenues			
Sales of crude oil, gas, refined products and petrochemicals		31,787,000	38,900,214
Revenues from consultancy and other operations	24	103,944	113,678
		<u>31,890,944</u>	<u>39,013,892</u>
Cost of revenues			
Cost of sales of crude oil, gas, refined products and petrochemicals		(30,191,344)	(36,689,246)
Cost of consultancy and other operations		(87,917)	(162,995)
		<u>(30,279,261)</u>	<u>(36,852,241)</u>
Gross profit		1,611,683	2,161,651
Depreciation and amortisation		(312,426)	(346,478)
General and administrative expenses		(425,450)	(399,903)
Provision for impairment loss on property, plant and equipment and goodwill and others		(147,542)	(244,032)
Operating profit		726,265	1,171,238
Interest income		37,969	33,214
Interest expense		(17,567)	(14,434)
Net interest income		20,402	18,780
Investment income	25	171,931	281,697
Share of results of equity accounted investees	10	219,363	282,674
Other income (net)	26	431,518	197,118
Directors' remuneration	27	(58)	(67)
Profit before provision for income tax		1,569,421	1,951,440
Income tax reversal / (expense)	14	29,810	(41,150)
		<u>1,599,231</u>	<u>1,910,290</u>
Provision for replacement and renewal of property, plant and equipment	19	(345,000)	(390,000)
Profit for the year from continuing operations		1,254,231	1,520,290
Discontinued operations			
Loss from discontinued operations	37	-	(20,976)
Profit for the year		<u>1,254,231</u>	<u>1,499,314</u>
Other comprehensive income			
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurements of defined benefit obligations		(56,521)	(33,070)
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences for foreign operations		(78,424)	(17,038)
Net change in fair value of available-for-sale investments		584,444	(25,807)
Other comprehensive income / (loss) for the year		449,499	(75,915)
Total comprehensive income for the year		<u>1,703,730</u>	<u>1,423,399</u>
Profit attributable to:			
Equity holder of the Corporation		1,253,774	1,488,184
Non-controlling interest		457	11,130
Profit for the year		<u>1,254,231</u>	<u>1,499,314</u>
Total comprehensive income attributable to:			
Equity holder of the Corporation		1,703,273	1,412,269
Non-controlling interest		457	11,130
Total comprehensive income for the year		<u>1,703,730</u>	<u>1,423,399</u>

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

Consolidated statement of changes in equity

as at 31 March 2015

Attributable to equity holder of the Corporation:

	Authorised and paid-up share capital	Statutory reserve	Capital reserve	General reserve	Reserve for replacement and renewal of property, plant and equipment	Remeasurement of defined benefit obligation reserve	Profit available for distribution	Cumulative changes in fair values	Foreign currency translation reserve	Total	Non-controlling interest	Total equity
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 31 March 2013, as previously reported	2,500,000	1,250,000	232,945	15,731,827	2,287,691	(47,763)	-	463,417	(5,165)	22,412,952	38,671	22,451,623
Impact of restatement (Note 23)	-	-	-	(3,975,946)	-	-	3,975,946	-	-	(3,975,946)	-	(3,975,946)
Profit to be distributed (Note 23)	-	-	-	-	-	-	(3,975,946)	-	-	-	-	(3,975,946)
Restated balance at 31 March 2013	2,500,000	1,250,000	232,945	11,755,881	2,287,691	(47,763)	-	463,417	(5,165)	18,437,006	38,671	18,475,677
Total comprehensive income	-	-	-	1,488,184	-	-	-	-	-	1,488,184	11,130	1,499,314
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	(33,070)	-	(25,807)	(17,038)	(75,915)	-	(75,915)
Total comprehensive (loss) / income	-	-	-	1,488,184	-	(33,070)	-	(25,807)	(17,038)	1,412,269	11,130	1,423,399
Reserve for replacement and renewal of property, plant and equipment	-	-	-	-	390,000	-	-	-	-	390,000	-	390,000
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	1,034	1,034
Balance at 31 March 2014	2,500,000	1,250,000	232,945	13,244,065	2,677,691	(80,833)	-	437,610	(22,203)	20,239,275	50,835	20,290,110

Consolidated statement of changes in equity

as at 31 March 2015

Attributable to equity holder of the Corporation												
Authorised and paid-up share capital	Statutory reserve	Capital reserve	General reserve	Reserve for replacement and renewal of property, plant and equipment	Remeasurement of defined benefit obligation reserve	Profit available for distribution	Cumulative changes in fair values	Foreign currency translation reserve	Total	Non-controlling interest	Total equity	
KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	
Balance at 31 March 2014 as previously reported	2,500,000	1,250,000	232,945	17,220,011	2,677,691	(80,833)	-	(22,203)	24,215,221	50,835	24,266,056	
Impact of restatement Note 23)	-	-	-	(3,975,946)	-	-	3,975,946	-	-	-	-	
Profit to be distributed Note 23)	-	-	-	-	-	-	(3,975,946)	-	(3,975,946)	-	(3,975,946)	
Restated balance at 1 March 2014	2,500,000	1,250,000	232,945	13,244,065	2,677,691	(80,833)	-	(22,203)	20,239,275	50,835	20,290,110	
Total comprehensive income	-	-	-	1,253,774	-	-	-	-	1,253,774	457	1,254,231	
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	
Other comprehensive income / (loss)	-	-	-	-	-	(56,521)	-	(78,424)	449,499	-	449,499	
Total comprehensive income / (loss)	-	-	-	1,253,774	-	(56,521)	-	(78,424)	1,703,273	457	1,703,730	
Reserve for replacement and renewal of property, plant and equipment	-	-	-	-	345,000	-	-	-	345,000	-	345,000	
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	(2,010)	(2,010)	
Balance at 31 March 2015	2,500,000	1,250,000	232,945	14,497,839	3,022,691	(137,354)	-	(100,627)	22,287,548	49,282	22,336,830	

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

Consolidated statement of cash flows

as at 31 March 2015

	Notes	2015 KD'000	2014 KD'000
Cash flows from operating activities			
Profit for the year		1,254,231	1,499,314
Adjustments for:			
Depreciation and amortisation		312,426	346,478
Provision for replacement and renewal of property, plant and equipment		345,000	390,000
Provision for impairment loss on property, plant and equipment and goodwill and others		147,542	244,032
Write off of unsuccessful exploration	7	69,140	27,460
Provision for employees' terminal benefits and pensions		332,984	163,075
Loss/ (gain) on disposal of property, plant and equipment	26	1,563	(3,361)
Share of results of equity accounted investees	10	(219,363)	(282,674)
Interest income		(37,969)	(33,214)
Interest expense		17,567	14,434
Income tax expense	14	(29,810)	41,150
Investment income		(171,931)	(281,697)
		<u>2,021,380</u>	<u>2,124,997</u>
Changes in:			
- inventories		1,007,065	(142,545)
- trade receivables		1,172,707	531,571
- other receivables and prepayments		(8,717)	(468,090)
- non-current liabilities		(232,072)	23,471
- trade payables		(190,549)	108,994
- other payables, accruals and other credit balances		(279,333)	(208,645)
- Increase in amounts due to Ministry of Oil		(576,890)	391,166
Cash generated from operations		<u>2,913,591</u>	<u>2,360,919</u>
Interest paid		(17,567)	(14,434)
Taxes paid (net)		(141,428)	(65,743)
Net cash from operating activities		<u>2,754,596</u>	<u>2,280,742</u>
Cash flows from investing activities			
Increase in deposits maturing after 3 months		(97,405)	(32,067)
Increase in available-for-sale investments		(112,537)	(555,486)
Net movement in equity accounted investees		135,543	138,397
Acquisition of subsidiary	35	(406,646)	(70,282)
Additions to intangible assets	7	(88,985)	(66,739)
Additions to goodwill	6	(5,411)	(1,788)
Increase in other non-current assets		32,541	20,408
Purchase of property, plant and equipment	5	(2,843,945)	(2,203,532)
Proceeds from disposal of property, plant and equipment		17,626	117,744
Interest received		37,969	33,214
Net cash used in investing activities		<u>(3,331,250)</u>	<u>(2,620,131)</u>
Cash flows from financing activities			
Increase in term loans, net		555,984	117,486
Change in non-controlling interest		(2,010)	1,034
Net cash from financing activities		<u>553,974</u>	<u>118,520</u>
Net effect of foreign currency translation adjustments		70,456	(71,417)
Net increase / (decrease) in cash and cash equivalents		<u>47,776</u>	<u>(292,286)</u>
Cash and cash equivalents at beginning of the year		4,351,465	4,643,751
Cash and cash equivalents at end of the year	15	4,399,241	4,351,465
Short-term deposits maturing after 3 months	15	1,058,972	961,567
Bank balances and cash at end of the year	15	<u>5,458,213</u>	<u>5,313,032</u>

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

1. Corporate information

The Kuwait Petroleum Corporation ("the Corporation") is wholly-owned by the Government of the State of Kuwait. The Corporation was established by Law Decree No. 6 of 1980 which came into effect on 27 January 1980. The principal activities of the Corporation and its subsidiaries (together referred to as "the Group") include exploration, drilling, production, storage, refining, processing, transportation, distribution and marketing of crude oil, natural gas, chemical, petrochemical and associated products. The marketing of crude oil and petroleum products produced by subsidiaries in the State of Kuwait is undertaken by the Corporation. The entire Group's other activities, including the marketing of crude oil and petroleum products produced by subsidiaries outside the State of Kuwait are carried out through its subsidiaries, associates and joint ventures/ operations. The principal subsidiaries, associates and joint ventures/ operations are set out in Note 38. The Group operates principally in the Middle East, Far East, Western Europe and the U.S.A.

Crude oil produced in the State of Kuwait becomes the property of the Government of the State of Kuwait, which reimburses the production costs of the producing subsidiaries. The Corporation purchases crude oil and natural gas from the Government of the State of Kuwait in accordance with the terms of the applicable Decree issued on 17 January 1981.

The address of the Corporation's registered office is P.O. Box 26565, Safat 13126, State of Kuwait.

The annual general assembly meeting of the Corporation for year ended 31 March 2014 has not yet been held by the Supreme Council for Petroleum, therefore the opening balances in the consolidated financial statements are subject to the approval of the Supreme Council for Petroleum.

The consolidated financial statements of the Group for the year ended 31 March 2015 were authorised for issue in accordance with a resolution of the directors on 24 June 2015. These consolidated financial statements are subject to change upon approval of the Supreme Council for Petroleum.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Law Decree No. 6 of 1980 and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (IASB).

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention, modified for the measurement at fair value of available-for-sale investments and derivative financial instruments.

c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Kuwaiti Dinars, which is the Group's functional currency. All amounts are rounded to the nearest thousand, unless otherwise indicated.

d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

e) Changes in accounting policies

The Group has adopted the following revised and newly issued IFRSs effective for annual periods beginning on 1 April 2014:

IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively.

IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosures of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for *IFRIC 21*.

Annual Improvements to IFRS 2010-2012 Cycle

In the 2010-2012 annual improvements to IFRS cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

The above amendments did not have any significant impact on the consolidated financial statements of the Group.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 April 2014 are not material of the Group.

3. Significant accounting policies

Except for changes explained in Note 2(e), the Group has consistently applied the accounting policies set below to all periods presented in these consolidated financial statements.

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and its principal subsidiaries. Details of the principal consolidated subsidiaries are included in Note 38.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

The financial statements of subsidiaries are prepared using accounting policies that are consistent with those applied by the Corporation. Adjustments are made to conform any material dissimilar accounting policies that may exist.

Non-controlling interest principally represent the portion of profit or loss and net assets in subsidiaries of Kuwait Aromatics Company K.S.C. not held by the Corporation directly and are presented separately in the consolidated statement of profit or loss and other comprehensive income and separately from Corporation's equity within equity in the consolidated statement of financial position.

Intra-group balances and transactions, including intra-group profits and unrealised profits and losses are eliminated on consolidation.

The financial statements of the subsidiaries are consolidated on a line-by-line

Accounting periods of subsidiaries

The Corporation's financial year was from 1 April 2014 to 31 March 2015. The financial year of the Corporation's significant subsidiaries is the same as that of the Corporation with the exception of Kuwait Foreign Petroleum Exploration Company K.S.C., Kuwait Gulf Oil Company K.S.C. (Closed), KPC Energy Ventures, Inc. and Kuwait Aromatics Company K.S.C.C., whose financial years were from 1 January 2014 to 31 December 2014. Where such subsidiaries do not prepare financial statements up to the same date as that of the Group, adjustments are made for the effects of any significant events or transactions which have occurred in the months following the year end of these subsidiaries.

Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative consolidated statement of profit or loss and other comprehensive income is represented as if the operation had been discontinued from the start of the comparative year.

b) Property, plant and equipment**i. Oil and gas properties***Exploratory wells*

The tangible element of exploratory wells is included under drilling, exploration and other assets under construction pending determination of proved reserves. If an exploratory well finds proved reserves, these costs are transferred to wells and surveys under oil and gas properties. If the exploratory well does not find proved reserves the costs are written off as abortive. Costs are considered abortive when they relate to wells, which are permanently abandoned due to the absence of commercially exploitable reserves of crude oil or temporarily abandoned with no plans for re-entry in the foreseeable future.

Costs directly associated with an exploration well are capitalised as exploration and evaluation assets under drilling, exploration and other assets under construction until the drilling of the well is complete and the results

have been evaluated. These costs include employee remuneration, materials, drilling and contractors' cost.

Geological and geophysical costs are recognised in the statement of profit or loss and other comprehensive income, as incurred.

Development Wells

The cost of development wells is included under oil and gas properties as wells and surveys and is accounted for under the "successful efforts" method of accounting. Under this method, expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells is capitalized within oil and gas properties.

Oil and gas properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

ii. Other property, plant and equipment

Other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, contractors' costs and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Subsequent costs

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) and is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred.

Gain or loss on disposal

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in the consolidated statement of profit or loss and other comprehensive income.

iii. Other assets under construction

Assets in the course of construction are carried at cost, less any recognised impairment loss. Cost includes all capital costs in accordance with the Group's accounting policy. Assets under construction are transferred to the related assets under property, plant and equipment when the underlying project is substantially completed and the related asset is brought into use.

Depreciation of these assets commences when the assets are ready for their intended use.

iv. Depreciation

Depreciation is based on the cost of an asset less its residual value, where applicable. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in the consolidated statements of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment except for oil and gas properties, which are depreciated and depleted on a unit of production basis over the commercial proven and probable reserves ("2P reserves"). Other assets under construction and land are not depreciated.

The estimated useful lives for the current and comparative year, in accordance with the instructions of the Parent Company, as approved by the Supreme Council for Petroleum, are as follows:

Asset category	Depreciation	
	2014 - 2015	2013 - 2014
	Years	Years
<i>Oil and gas</i>		
Oil and gas properties	Unit of production	Unit of production
Plant and machinery	20 - 25	7 - 15
Tankage, pipelines and jetties	20 - 25	10 - 20
Wells and surveys	10 - 20	10
Service plant and drilling equipment	4 - 5	3 - 4
Vessels	30 - 35	5 - 17
<i>Other property and equipment</i>		
Land, buildings and roads	25	10 - 25
Furniture, tools and computers	5 - 10	5 - 10
Vehicles, ships and marine craft	5 - 13	5 - 10

ods, useful lives and residual values are reviewed at each reporting date and adjust if appropriate.

Estimates in respect of certain items of property, plant and equipment were revised in the current year (Note 5).

c) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Where goodwill forms part of a CGU and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

d) Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Intangible assets consist of application software, license costs, intellectual property and other agreements etc.

Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

License and property acquisition costs

Exploration license and leasehold property acquisition costs are capitalised within intangible assets and are reviewed at each reporting date to confirm that

there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing.

If no future activity is planned, the carrying value of the license and property acquisition costs is written off through profit or loss. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

Exploration and evaluation costs

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and assessment of commercial viability of an identified resource. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible asset until the drilling of the well is complete and the results have been evaluate.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), are likely to be capable of being commercially developed, the costs continue to be carried as an intangible asset while sufficient/ continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells, where hydrocarbons were not found, are initially capitalised as an exploration and evaluation intangible asset. All such capitalised costs are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off to profit or loss.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. No amortization is charged during the exploration and evaluation phase.

Gain or loss on disposal

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Amortisation

All intangible assets with finite useful lives are amortised on a straight line basis over the useful economic life, except for certain intangible assets which are amortised on a unit of production basis, where applicable.

The estimated useful lives for current and comparative period is as follows:

	Years
*License cost	2-30
Application software	5
Reservation right fees	25
Seismic survey and others	More than 10

*Included in license costs, certain assets which are amortised over a thirty year period as the Group considers such costs to be closely associated with the economic life of the land, buildings and facilities which are the subject of the licences.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates prospectively.

e) Available-for-sale investments

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognized in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to the consolidated statement of profit or loss.

Impairment

For financial assets available for sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income) is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Any increase in fair value after impairment is recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Subsequent increase in fair value of a debt instrument which is objectively related to an event occurring after the impairment loss was recognised, is credited to the consolidated statement of income.

f) Investments in equity accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The profit or loss reflects the share of the results of operations of the associate or joint venture. Where there has been a change recognised in other comprehensive income of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss in the statement of profit or loss.

An impairment loss in respect of investment in equity-accounted investees are measured by comparing the recoverable amount of the investments with its carrying amount in accordance with impairment of *non-financial assets* (see *Note m*).

Unrealised gains arising from transactions with the equity accounted investees are eliminated against the investment to the extent of the Group's interest in the associate and joint venture. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Distributions received from the associate and joint venture reduce the carrying amount of the investment.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Some of the equity accounted investees has year-end different from the Group's consolidated financial statements. Accordingly, the adjustments are made for any significant transactions or events happening in the months between the year end of the equity accounted investees and 31 March.

g) Interests in joint operations

A joint operation is a contractual arrangement whereby two or more parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

Interests in joint operations are accounted for using the proportionate consolidation method. The Group combines its share of each of the assets, liabilities, income and expenses of the joint operations with the similar items, line by line, in its consolidated financial statements. The financial statements of the joint operations are prepared at 31 December and accordingly, adjustments are made for the effect of any significant events or transactions occurring in the months between the year end of the joint operations and 31 March.

Where practicable, adjustments are made to the joint operations' audited financial statements to bring them in line with the Group's accounting policies.

The joint operations are proportionately consolidated from the date of acquisition of joint control until the date on which the Group ceases to have joint control over the joint operations. All intra-group transactions and balances are eliminated to the extent of the Group's share in the joint operations.

h) Inventories**i) Crude oil and petroleum products**

Crude oil inventory is valued at the lower of average cost and net realisable value at the year end. The cost of crude oil to the Corporation is determined by the Government of Kuwait in accordance with the Decree issued on 17 January 1981. The formula for establishing the cost of crude oil has been revised in accordance with a resolution by the Supreme Council for Petroleum effective 1 July 1997.

Liquefied petroleum gas and finished products are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method on an individual product basis. Costs are those expenses incurred in bringing each product to its present location and condition. This includes cost of crude oil and natural gas supplied plus an allocation of processing costs and overheads to each product based on their relative market values.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

ii) Other

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

i) Trade receivables

Trade receivables are stated at their cost less impairment losses. Long term receivables are discounted to their net present value and are stated at amortised cost less impairment losses.

j) Deferred expenses

The deferred expenses mainly represent catalysts used in the refining process which are amortised on a straight line basis over their estimated useful lives less impairment losses. Deferred expenses are recognised to the extent that the expenses incurred represent the future economic benefits to flow to the Group.

k) Cash and cash equivalents

Cash and cash equivalents for the purpose of preparing the consolidated statement of cash flows comprise cash, short-term bank deposits and highly liquid investments with a maturity date not exceeding three months from the date of placement.

l) Recognition and de-recognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognised either when the Group has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset. A financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

m) Impairment*Impairment of non-financial assets*

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An assessment is made at each reporting date to determine whether there is objective evidence that an asset may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment of financial assets other than available for sale investments

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

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Objective evidence that financial assets are impaired includes:

- 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;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the consolidated statement of profit or loss and other comprehensive income and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

n) Trade payables

Trade payables are stated at their amortised cost.

o) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

p) Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional

currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The Group's investments in foreign subsidiaries, associates and joint ventures are translated into Kuwaiti Dinars at the year end rates of exchange and the results of the subsidiaries, associated companies and joint ventures are translated into Kuwaiti Dinars at the average rates of exchange for the year. Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income. When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

q) Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

For investments and derivatives traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the reporting date. The fair value of fund investments or similar investment vehicles is based on the last reported net asset values from the fund managers.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by using valuation techniques such as recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, an earnings multiple, or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the

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use of relevant observable inputs and minimising the use of unobservable inputs.

r) Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

s) Taxes on income

Income tax expense represents the sum of tax currently payable and deferred tax relating to individual subsidiaries and their local tax jurisdictions. The tax currently payable is based on taxable profit for the year, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint venture, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

t) Derivatives

The Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties whose value changes in response to movements in a reference price, rate, index or similar variable that requires a minimal initial net investment relative to other types of contracts, and that is settled at a future date. Derivative financial instruments include forwards, futures, swaps and options.

Derivatives are stated at fair value. The fair value of a derivative is the amount for which an asset could be exchanged, or a liability settled between knowledge and willing parties in arm's length transaction. Derivatives with positive market values (unrealised gains) are included in other receivables and derivatives with negative market values (unrealised losses) are included in other payables in the consolidated statement of financial position. The resultant gains and losses from derivatives held for trading purpose are included in the consolidated statement profit or loss and other comprehensive income.

The Group also enters into sales and purchase contracts as part of its international operations. Where these contracts qualify as a derivative or include an embedded derivative as defined by IAS 39, they are stated at fair value. Fair value is assessed by applying prevailing market prices directly to the contract or embedded derivative, where possible, or by identifying separate financial instruments which have the same terms and are readily traded in the relevant markets.

u) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the best estimate of the amount to be settled.

v) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

w) Revenue recognition

Sales are recognised on the date legal title passes to the customer in accordance with the contract of sale. Other operating revenues are recognised as work is performed or over the terms of the related contracts.

Interest is recognised on the accrual basis.

Dividend income is recognised when the Group's right to receive payment is established.

x) Leases

Rentals paid under operating leases are expensed on a straight-line basis over the lease term, irrespective of the terms of payment.

y) Provision for employees' indemnity

Defined benefit and contribution scheme – Parent, local subsidiaries

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

Pensions and other social benefits for Kuwaiti employees are covered by The Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group'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.

Defined benefit scheme – Foreign subsidiaries

The Group's subsidiaries in the UK, Sweden, Belgium, the Netherlands, Germany and Italy (see "Termination allowances" below) provide defined pension schemes for their employees. The funds are valued every period by professionally qualified independent actuaries. The obligations and costs of pension benefits are determined using the projected Unit Credit Method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements. During the year, the defined benefit pension scheme in the Netherlands was converted to a defined contribution scheme.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Defined contribution schemes

In addition to the defined schemes described above, the Group's affiliates in the UK, Belgium and Netherlands sponsor defined contribution plans for employees based on local practices and regulations. The Group's contributions relating to defined contribution schemes are charged to profit or loss in the year to which they relate.

Termination allowances

Employees in the Group's Italian operations are entitled to retirement benefits in the form of termination allowances. These allowances are payable to employees upon retirement or leaving employment according to the amounts provided during the service life of each employee. The allowances may be drawn by employees, in part, during their employment for certain specific purposes. The Group accounts for these arrangements using defined benefit principles.

z) Emissions' rights

The Group is a party to the EU Emissions Allowance Trading Scheme under which EU member states are required to set an emission cap for certain installations. The Group records a liability, at fair value, for any deficits arising under this scheme but does not record an asset for any surpluses arising. Profits from the sale of emissions' surpluses are shown within other income.

aa) New standards and interpretations not yet adopted

Following standards and interpretations are effective for annual periods beginning after 1 April 2014 and have not yet been adopted by the Group:

IFRS 11 (Amendments) – Accounting for Acquisitions of Interests in Joint Operations

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business; the amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisitions accounted for as a business combination or as the acquisition of a collection of assets. The amendments are applied to annual financial statements beginning on or after 1 January 2016.

IAS 16 (Amendments) – Clarification of Acceptable Methods of Depreciation

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset.

IAS 38 (Amendments) – Clarification of Acceptable Methods of Amortisation

The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the

economic benefits of the intangible asset are "highly correlated", or when the intangible asset is expressed as a measure of revenue.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 specifies how and when an entity recognises revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The standard was issued in May 2014 and applies to annual financial statements beginning on or after 1 January 2018.

IFRS 9 – Financial Instruments

IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

Management of the Group is in the process of assessing the impact of the adoption of the above standards and amendment to standards on the Group's consolidated financial statements.

4. Significant accounting judgement and estimates

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in this note, management has made the following judgments that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Recognition of provisions

The Group is subject to a number of matters which could lead to an outflow of economic benefits. In making an assessment as to whether such matters require either provision or disclosure, management is required to consider, amongst other factors, whether a constructive obligation exists at the reporting date and whether the resulting risk of an outflow of economic benefits is probable (requiring a provision), less than probable but more than remote (requiring disclosure) or remote (requiring neither provision nor disclosure). In the current year, the most significant judgements made by management relating to the above are:

- The extent to which the Group has constructive obligations in relation to the clean up of environmental exposures in a number of different affiliates;

- The extent to which the Group has constructive obligations at the reporting date in relation to various restructuring programs; and
- The extent to which it is probable that the Group will have to make payments in respect of a number of tax, legal and regulatory disputes.

Further details of amounts for which either provision or disclosure was deemed to be required are given in Notes 20 and 34 respectively.

Impairment of available-for-sale investments

The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Classification of securities

Management decides on acquisition of securities whether they should be classified as investments carried at fair value through profit or loss or available-for-sale.

The management classifies its securities as carried at fair value through profit or loss if they are acquired primarily for the purpose of short term profit making and the fair value of those securities can be reliably determined.

Classification of securities at fair value through profit or loss depends on how management monitors the performance of these securities when they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified at fair value through profit or loss. Other securities are classified as available-for-sale.

Key sources of estimation uncertainty

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

Valuation of unquoted equity securities

Valuation of unquoted equity securities is normally based on one of the following:

- recent market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Having concluded that a provision is required for a potential exposure (see above), the amount to be recognised shall be the best estimate of the expenditure required to settle the present obligation at the reporting date, taking into consideration any relevant risks and uncertainties and the time value of money. This requires management to make its best estimates of the likely future outflows, the expected timing of such outflows and the discount rate to be applied to such outflows, taking into account the risks specific to the particular exposure. Further details of the nature of provisions recorded by the Group are provided in Note 20. The majority of these exposures are expected to be settled over a relatively limited number of years which limits the uncertainty in respect of the time value of money.

Impairment of goodwill

Determining whether Goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the cost has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Residual value and useful life of oil and gas tankers

Due to the specialised nature of these tankers and changing market conditions, the estimation of these requires significant judgement.

Impairment of oil and gas tankers

The Group determines whether these tankers are impaired, at least on an annual basis. This requires an estimation of the recoverable amount (higher of value in use and fair value less costs to sell). Estimating the recoverable amount requires the Group to ascertain the value in use and fair value less costs to sell. Determining the value in use requires the Group to make an estimate of the expected future cash flows from the tanker and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Determining the fair value less costs to sell requires the Group to use an appropriate valuation model to compute the fair value and to estimate the costs to sell based on past experience and future expectations.

Remeasurement gains and losses

In calculating the carrying value of its defined benefit schemes, management is required to apply a number of assumptions, the most significant of which are investment growth, future salary growth and discount rate.

Depletion of oil and gas properties

Depletion of the cost of oil and gas properties and information reported on estimated quantities of proved oil and gas reserves are based on estimated oil and gas reserves which have been determined by competent and qualified petroleum engineers. Management believes these reserves to be commercially productive and will provide revenues to the Group adequate to recover remaining net un-depreciated and un-depleted capitalised oil and gas properties.

Decommissioning liability

The Group has made provision for decommissioning costs relating to the future abandonment of fields based on the present value of expected expenditures required to settle the obligation. The estimates used to determine decommissioning liability have been reviewed and revised, as appropriate, during the year by competent and qualified petroleum engineers.

During the year, borrowing costs of KD 4 million (2014: nil) were capitalised to oil and gas properties. Borrowing costs were capitalised at the rate of 1.54% per annum (2014: nil). Land, buildings and roads includes land amounted to KD 56 million (2014: KD 60 million).

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5. Property, plant and equipment (continued)

	Oil and gas					Other property and equipment					
	Oil and gas properties KD'000	Plant and machinery KD'000	Tankage, pipelines and jetties KD'000	Wells and surveys KD'000	Service plant and drilling equipment KD'000	Vessels KD'000	Land, buildings and roads KD'000	Furniture, tools and computers KD'000	Vehicles, ships and marine craft KD'000	Assets under construction KD'000	Total KD'000
Balance at 1 April 2013, net of accumulated depreciation	735,101	2,413,638	1,250,426	1,325,471	2,174	378,470	632,317	23,972	4,806	3,808,876	10,575,251
Additions	415,384	43,294	72	98	-	295	10,102	530	268	1,733,489	2,203,532
Disposals	(91,333)	(1,310)	(9)	(5)	-	(2,436)	(3,349)	(5)	(10)	(15,926)	(114,383)
Change in estimate	27,645	-	-	-	-	-	-	-	-	-	27,645
Transfers	-	177,692	116,614	370,169	9,063	59,148	20,632	5,215	904	(759,437)	-
Transfer to intangible assets (note 7)	-	-	-	-	-	-	-	-	-	(1,533)	(1,533)
Foreign currency translation adjustment	(42,639)	39,514	2,072	436	-	-	11,087	48	95	9,536	20,149
Depreciation for the year	(124,026)	(323,280)	(111,125)	(217,768)	(1,651)	(30,237)	(35,938)	(9,436)	(1,730)	-	(855,191)
Acquisition (note 35)	60,713	-	-	-	-	-	-	-	-	-	60,713
Impairment loss	(27,503)	(138,215)	(8,299)	-	-	(7,901)	(15,725)	-	(34)	(40,460)	(238,137)
At 31 March 2014	953,342	2,211,333	1,249,751	1,478,401	9,586	397,339	619,126	20,324	4,299	4,734,545	11,678,046
Property, plant and equipment											
At cost	1,832,785	6,104,344	2,706,437	3,334,892	38,047	619,715	1,154,606	91,544	69,947	4,776,161	20,728,478
Accumulated depreciation and impairment losses	(879,443)	(3,893,011)	(1,456,686)	(1,856,491)	(28,461)	(222,376)	(535,480)	(71,220)	(65,648)	(41,616)	(9,050,432)
Net carrying amount at 31 March 2014	953,342	2,211,333	1,249,751	1,478,401	9,586	397,339	619,126	20,324	4,299	4,734,545	11,678,046

During the year, the Corporation and the Supreme Council for Petroleum approved the changes in the useful lives of property, plant and equipment based on the study carried out by independent experts. As a result the management's previous estimate of useful lives of property, plant and equipment were revised with effect from 1 April 2014 and treated as per the requirements of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group has applied the said revision prospectively. The estimated effect of these changes on depreciation expense, recognised in profit or loss in the current year amounts to KD 323,019 thousand. The estimated effect of these changes on depreciation expense in the future years is as follows:

Year	Decrease in depreciation expense (KD'000)
2015-2016	276,170
2016-2017	199,773
2017-2018	171,715
2018-2019	156,435
2019-2020	128,060

6. Goodwill

	2015 KD'000	2014 KD'000
At beginning of the year	92,302	61,565
Additions during the year	5,411	1,788
Acquisitions (Note 35)	61,648	28,550
PPA adjustment (Note 35)	(19,471)	-
Impairment	(7,064)	(3,558)
Currency translation effects	(28,973)	3,957
	<u>103,853</u>	<u>92,302</u>

7. Intangible assets

Movements in the net book value of intangible assets other than goodwill during the year were as follows:

	2015 KD'000	2014 KD'000
At beginning of the year	223,381	189,882
Additions during the year	88,985	66,739
Acquisition (Note 35)	410,959	11,240
Transfer from assets under construction (Note 5)	10,871	1,533
Amortisation	(16,953)	(18,221)
Write-off of unsuccessful exploration cost	(69,140)	(27,460)
Currency translation effects	(24,198)	(332)
	<u>623,905</u>	<u>223,381</u>

The above primarily consists of licenses in respect of the Group's retail network together with capitalised software development costs and exploration and evaluation assets.

8. Other non-current assets

	2015 KD'000	2014 KD'000
Long term portion of trade receivables	29,297	130,992
Deferred expenses	21,536	16,244
Amount due from the Public Authority for Industry (PAI) (Note 13)	-	57,463
Others	18,509	23,700
	<u>69,342</u>	<u>228,399</u>

In prior years, the Corporation had a long outstanding amount of KD 122 million receivable from Ministry of Electricity and Water ("MEW"). A significant portion of the above balance was long outstanding as payment of these was subject to formalities, including the approval of the Ministry of Electricity and Water expenditure budget.

During the current year, the Corporation reached an arrangement with MEW for the settlement of long term receivables. The long term balance receivable as of February 2015 was KD 133 million. As a result of this arrangement, an amount of KD 52 million has been recognised as expense and adjusted against miscellaneous income as disclosed in Note 26. In addition, the Corporation reclassified the remaining balance into current assets under trade receivables.

Approximately KD 22 million (2014: KD 16 million) of deferred expenses represents catalysts used in the refining process which are amortised on a straight line basis over their estimated useful lives.

9. Available-for-sale investments

	2015 KD'000	2014 KD'000
Managed portfolios and funds	6,780,049	5,906,531
Others	34,081	38,243
	<u>6,814,130</u>	<u>5,944,774</u>

Available-for-sale investments are denominated predominantly in US Dollars and Euros and represent investments in high credit quality bonds and equities quoted on international stock markets.

10. Investment in equity accounted investees

	2015 KD'000	2014 KD'000
Significant equity accounted investees	695,986	680,155
In-significant equity accounted investees	89,697	45,648
	<u>785,683</u>	<u>725,803</u>

Investments in equity accounted investees (continued)

The share of profit of equity accounted investees recognised for the year was KD 219,363 thousand (2014: KD 282,674 thousand).

The following table provide summarised financial information of significant equity accounted investees of the Group:

31 March 2015	Ownership	Total assets KD'000	Total liabilities KD'000	Net assets KD'000	Group's share of net assets/ carrying value of investment s KD'000	Revenue s KD'000	Expenses KD'000	Profit/ (loss) KD'000	Share of results KD'000
Associates									
Kuwait Drilling Company K.S.C.	49%	228,655	138,691	89,964	44,082	52,697	48,638	4,059	1,989
Equate Petrochemical Company K.S.C.C.	42.5%	910,072	735,254	174,818	74,298	511,229	350,284	160,945	68,402
Gulf Petrochemical Industries Company B.S.C.	33.33%	152,198	12,075	140,123	33,651	127,425	70,381	57,044	19,013
The Kuwait Olefins Company K.S.C.C.	42.5%	430,485	256,300	174,185	74,029	234,835	100,497	134,338	57,094
Al-Oula Fuel Marketing Company K.S.C.	24%	74,540	19,748	54,792	13,150	14,040	10,029	4,011	963
Al-Sour Fuel Marketing Company K.S.C.	24%	67,910	14,427	53,483	12,836	15,358	11,264	4,094	983
Joint Ventures									
The Kuwait Styrene Company K.S.C.C.	57.5%	191,110	102,006	89,104	51,235	40,368	4,667	35,701	20,528
MEGlobal B.V. and subsidiaries	50%	399,664	223,138	176,526	80,620	973,365	945,279	28,086	14,043
MEGlobal Canada Inc. and a subsidiary	50%	329,293	156,377	172,916	86,458	278,874	216,178	62,696	31,348
OKQ8 AB	50%	383,032	230,845	152,187	76,094	17,934	(1,417)	19,351	9,676
Nghi Son Refinery Project ("NSRP")	35.1%	989,458	563,439	426,019	149,533	-	9,220	(9,220)	(3,236)
		4,156,417	2,452,300	1,704,117	695,986	2,266,125	1,765,020	501,105	220,803

Investment value in MEGlobal B.V. and subsidiaries and OKQ8 AB are adjusted at the Group level for impairment provision and post-acquisition capital contribution of KD 7,643 thousand and KD 3,531 thousand respectively (March 2014: MEGlobal B.V. and subsidiaries impairment provision of KD 7,643 million and OKQ8 AB for post-acquisition capital contribution of KD 3,531).

At 31 March 2015, the Group's share in the contingent liabilities of joint ventures was KD 14,331 thousand (2014: KD 13,475 thousand). In addition, assets relating to joint ventures in which the Group's share amounting to KD 195,321 thousand (2014: KD 206,727 thousand) are pledged as a security against term loan facilities obtained by those joint ventures.

31 March 2014	Ownership	Total assets KD'000	Total liabilities KD'000	Net assets KD'000	Group's share of net assets/ carrying value of investments KD'000	Revenues KD'000	Expenses KD'000	Profit/ (loss) KD'000	Share of results KD'000
Associates									
Kuwait Drilling Company K.S.C.	49%	192,531	105,524	87,007	42,633	50,567	45,333	5,234	2,565
Equate Petrochemical Company K.S.C.C.	42.5%	1,112,105	733,782	378,323	68,495	596,835	378,644	218,191	92,731
Gulf Petrochemical Industries Company B.S.C.	33.33%	160,408	30,678	129,730	31,382	120,310	65,975	54,335	18,110
The Kuwait Olefins Company K.S.C.C.	42.5%	556,743	271,816	284,927	68,423	139,692	4,923	134,769	57,277
Al-Oula Fuel Marketing Company K.S.C.	24%	63,412	11,595	51,817	12,436	14,016	9,752	4,264	1,023
Al-Sour Fuel Marketing Company K.S.C.	24%	60,838	11,611	49,227	11,814	13,681	9,580	4,101	984
Joint Ventures									
The Kuwait Styrene Company K.S.C.C.	57.5%	208,575	112,581	95,994	55,197	55,010	3,785	51,225	29,454
MEGlobal B.V. and subsidiaries	50%	406,838	258,435	148,403	66,559	1,052,837	988,163	64,674	32,337
MEGlobal Canada Inc. and a subsidiary	50%	333,201	135,707	197,494	98,747	295,384	226,499	68,885	34,443
OKQ8 AB	50%	455,549	274,840	180,709	93,885	35,765	6,386	29,379	14,689
Nghi Son Refinery Project ("NSRP")	35.1%	447,144	75,109	372,035	130,584	-	2,169	(2,169)	(760)
		3,997,344	2,021,678	1,975,666	680,155	2,374,097	1,741,207	632,888	282,853
						7	9		

At the reporting date, the Group adjusted the carrying value of its investment in Gulf Petrochemical Industries Company B.S.C. ("GPIC") by KD 13 million on account of dividend declared subsequent to GPIC yearend i.e. 31 December 2014.

During the year, the Group received cash dividend of KD 688,450 thousand from equity accounted investees out of KD 701,502 thousand (March 2014: cash dividend received 55,567 thousand out of total amount of dividend declared of KD 205,227 thousand).

11. Inventories

	2015 KD'000	2014 KD'000
Crude oil	207,486	772,655
Liquefied petroleum gas	15,841	33,327
Refined petroleum products	587,501	987,259
Finished petrochemical products	15,958	28,974
Spare parts, materials and supplies	475,680	453,635
	<u>1,302,466</u>	<u>2,275,850</u>

12. Trade receivables

The Corporation and one of its major subsidiaries, comprising 82% (2014: 87%) of the consolidated total trade receivables, deal mainly with major state owned and international oil companies. Another major subsidiary operating mainly in Europe represent approximately 13% (2014: 10%) of the consolidated total trade receivables relating to a large number of corporate customers in that region. The Group's 12 largest customers account for 60% of outstanding trade receivables at 31 March 2015 (2014: 66%).

Trade receivables are denominated predominantly in US Dollars and Kuwaiti Dinars (KD).

Trade receivables include KD 295 million (2014: KD 462 million) receivable from Ministry of Electricity and Water.

13. Other receivables and prepayments

	2015 KD'000	2014 KD'000
Marine sub-charter and other receivables	152,960	305,197
Insurance, local tax and other claims	7,311	9,254
Prepaid expenses	33,589	69,527
Bills receivables	13,051	156,820
Receivable from exchange and concession partners	18,515	14,236
Advances to contractors	743,911	320,444
Refundable deposits	15,217	11,354
Employee receivables	79,491	151,695
Amount due from the Public Authority for Industry (PAI)	57,463	-
Other	380,770	395,727
	<u>1,502,278</u>	<u>1,434,254</u>

Amount due from the Public Authority for Industry (PAI) represents costs incurred by the Group to construct sea water cooling tower on behalf of PAI. The Group started construction on the project in May 2006 and was completed in 2009. On 19 November 2009, the Board of Directors of PAI approved the transfer subject to approval of Fatwa and legislation Bureau which was obtained in October 2012. Various communications were made between both parties towards finalising the transfer, however, due to budgetary constraints of PAI, the project has not been transferred till date.

In the current year, the net revenues generated by the project (that is managed by Equate Petrochemicals Company K.S.C.C.) on behalf of PAI amounted to KD 2 million (2014: KD 3 million) are recognised within sea water cooling tower operational account and disclosed in Note 21 under other credit balances. Petrochemical Industries Company K.S.C, a subsidiary, is holding the transfer of the project's net cash inflows until a settlement is made.

Management of the subsidiary is currently exploring several options to that project, including transferring it to related parties. A committee was formed in the current year to finalise the necessary due diligence on the project to be transferred to the related parties. Negotiations are currently in advance stage towards price determination and management believes that the transfer will be finalised within one year from the reporting date. As a result, the amount had reclassified from long term receivables to other receivables and prepayments.

14. Deferred tax assets and liabilities

Components of deferred tax assets/ (liabilities) are as follows:

a. Income taxes

	2015 KD'000	2014 KD'000
Profit or loss		
Current year expense	(101,221)	69,382
Deferred tax reversal	71,411	(28,232)
	<u>(29,810)</u>	<u>41,150</u>
Consolidated statement of financial position		
Deferred tax assets	199,175	174,721
Deferred tax liabilities (note 20)	<u>(101,527)</u>	<u>(194,414)</u>
	<u>97,648</u>	<u>(19,693)</u>

b. Other taxes receivable/ (payable)

Taxes receivable	17,535	27,580
Taxes payable	<u>(206,379)</u>	<u>(288,405)</u>
	<u>(188,844)</u>	<u>(260,825)</u>

Taxes receivable mainly comprise corporate income tax and related refund claims filed by one of the Group's foreign subsidiaries. Taxes payable are predominantly on account of VAT and similar tax liabilities payable by a foreign subsidiary.

15. Bank balances and cash

	2015 KD'000	2014 KD'000
Cash and current accounts at banks	2,429,822	1,798,802
Short-term bank deposits and highly liquid investments	<u>1,969,419</u>	<u>2,552,663</u>

maturing within 3 months		
Cash and cash equivalents	4,399,241	4,351,465
Short-term bank deposits maturing after 3 months	1,058,972	961,567
	<u>5,458,213</u>	<u>5,313,032</u>

Bank balances and cash include Pound Sterling 143 thousand (KD 64 thousand) (2014: Pound Sterling 142 thousand (KD 67 thousand)) recovered from former employees against whom the Corporation has initiated legal proceedings for financial irregularities (Note 34).

The corresponding amount of KD 64 thousand (2014: KD 67 thousand) is reported under other credit balances (Notes 21 and 34).

The interest rate on short term deposits ranging from 0.1% to 2.1% (2014: interest rate ranges from 0.2% to 2%).

16. Statutory reserve

In accordance with Article 12 of Law Decree No. 6 of 1980, the Corporation has resolved to discontinue the annual transfer to statutory reserve since the reserve would exceed 50% of the authorised and paid-up capital.

17. Capital reserve

The capital reserve mainly represents the difference between the Corporation's cost of acquisition of its original subsidiaries, which were transferred by the Government of the State of Kuwait, and their net asset values at 31 December 1979. No transfer to capital reserve has been made for the current year.

18. General reserve

In accordance with Article 12 of Law Decree No. 6 of 1980, 10% of the profit for the year attributable to equity holders of the Corporation is to be transferred to the general reserve, the percentage of which may be changed in accordance with a resolution of the Supreme Council for Petroleum (Note 23).

19. Reserve for replacement and renewal of property, plant and equipment

Article 10 of Law Decree No. 6 of 1980 states that the Corporation may provide part from its profits to meet the costs of replacement and renewal of the Corporation's and its subsidiaries' property, plant and equipment, after approval of the Supreme Council for Petroleum. The reserve is based on the difference between depreciation, calculated on the historical cost of the property, plant and equipment of the Corporation and its Kuwaiti subsidiaries, and depreciation calculated on the replacement cost of assets using their insured (generally replacement) values. The management has proposed to transfer KD 345 million to the reserve as at 31 March 2015 (2014: KD 390 million), which is subject to approval of the Supreme Council for Petroleum.

20. Non-current liabilities

	2015	2014
	KD'000	KD'000
Employees' terminal benefits (Note 20.1)	743,217	699,629
Pension fund liabilities (Note 20.1)	46,806	59,440
Long-term loans (Note 20.2)	949,110	407,497
Deferred income taxes (Note 14a)	101,527	194,414
Provisions (Note 20.3)	113,619	42,040
Others (Note 20.4)	430,821	201,688
	<u>2,385,100</u>	<u>1,604,708</u>

20.1 Employees' terminal benefits and Pension fund liabilities

The principal defined benefit funds schemes relating to KPC Holding (Aruba) A.E.C. operate in the United Kingdom, Germany, Belgium and Italy and during the year, the scheme in the Netherlands was converted to a collective defined contribution scheme. Provisions for pension obligations are established for benefits payable in the form of retirement, disability and surviving dependent pensions. The benefits offered vary according to the legal, fiscal and economic conditions of each country. Benefits are dependent on years of service and the respective employees' compensation.

The latest actuarial valuations took place between 31 December 2014 to 31 March 2015, and these showed that the funds and schemes in the United Kingdom, Belgium, Germany and Italy had a net deficit. The main assumptions used in the actuarial valuation were a rate of pension increases of 0% to 3% per annum (2014: 0% to 3.3%), an annual salary increase of 0% to 4.6% per annum (2014: 0% to 4.9% per annum) and a discount rate of 1.4% to 3.2% per annum (2014: 3.1% to 4.3% per annum).

Sensitivity analysis

A 0.25% increase/ decrease in the rate of pension increase, discount rate and annual salary at 31 March 2015 would not have any significant effect on the pension fund liabilities as of that date.

20.2 Long-term loans

The long-term loans mainly represent third party loans to Kuwait Aromatics Company K.S.C., KPC Holdings (Aruba) and Kuwait Foreign Petroleum Exploration Company K.S.C. (Closed).

On 17 May 2007, the Kuwait Aromatics Company K.S.C. (Closed) ("KARO"), an indirect subsidiary of the Corporation, signed a USD 1,400 million term debt facility agreement with a consortium of banks which includes commercial facilities of USD 1,053 million and an Islamic loan facility of USD 347 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 10th anniversary of the project and LIBOR+ 0.7% till the maturity date. The effective interest rate on the outstanding loan was 0.76% per annum (2014: 0.72% per annum). The facility agreement includes financial covenants that stipulate a minimum debt to equity ratio of minimum 65%.

The facility is secured by a charge over the property, plant and equipment and assignment of certain bank accounts of KARO's subsidiary.

The long term loans to KPC Holdings (Aruba) A.E.C., a subsidiary, are denominated in Euro and bear various interest rates, however the majority of the loan balance bears interest at applicable market rates. During the year, the subsidiary entered into a term loan facility of Euro 450 million (equivalent to USD 484 million), the proceeds were used for the acquisition of the entities described in Note 35, the repayment of existing loans, and general corporate purposes including rebranding and restructuring costs associated with acquisition. Of the amount borrowed, 30% is payable after three years, 30% after four years and remaining 40% after five years. This loan bears interest at EUROLIBOR plus 1.4%.

During the year, Kuwait Foreign Petroleum Exploration Company K.S.C. (Closed) obtained an additional borrowing of USD 1,250 million (equivalent to KD 366 million) from a consortium of local and international banks and carry an interest rate of 1 month LIBOR+1.4% per annum. This loan is unsecured and repayable in seven instalment from July 2015.

20.3 Provisions

Provisions represent the present obligations of one of the Corporation's subsidiaries in Europe relating mainly to environmental provisions relating to the closure of a refinery, and business restructuring in respect of the relocation of certain of the subsidiary's management together with restructuring of operations in France, Belgium, Italy and Germany.

	2015 KD'000	2014 KD'000
Environmental (see note i)	112,495	40,426
Restructuring (see note ii)	525	252
Other (see note iii)	599	1,362
	<u>113,619</u>	<u>42,040</u>

i. Environmental

The Group has accrued for costs associated with environmental clean-up, principally relating to Belgium and Italy. In Belgium, costs are expected to be incurred in the next one to three years and have not been discounted as the net effect of interest and inflation is not considered to be material. There is a related non-current government receivable which relates to contributions to clean-up costs received from a scheme funded by fuel levies set by the Belgian government. Costs related to logistic facilities and the refinery at Naples in Italy are expected to be incurred between 8 and 20 years and have been adjusted for inflation and discounting. Costs against provisions made in respect of the refinery at Europoort in the Netherlands are expected to be incurred over the next three to five years and have also been adjusted for inflation and discounting.

ii. Restructuring

The Group has accrued for costs associated with business restructuring of the operations in Belgium and Italy as well as the relocation of certain Group management and head office functions. During the year, a provision was made in Italy which is now fully utilised. These provisions have not been discounted as the net effect of interest and inflation is not considered to be material.

iii. Other

Provisions have also been made in respect of various claims incurred in the normal course of business and principally relate to tax, legal and regulatory disputes in a number of different subsidiaries, all of which are being vigorously contested by the Group. All claims are expected to be settled within one to five years and may carry interest.

20.4 Others

Included in non-current liabilities as at 31 March 2015 is an amount of KD 227,092 thousand (2014: KD 136,261 thousand) which represents a provision made for decommissioning costs related to a subsidiary.

The subsidiary makes full provision for the future cost of decommissioning oil producing facilities and pipelines on a discounted basis on the installation of those facilities. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred when the producing oil and gas properties are expected to cease operations. These provisions have been estimated based on the Subsidiary's internal estimates using operators estimates where applicable. The discount rate used in the calculation of the provision equaled to 3.5% (2014: 7%).

21. Other payables and accruals

	2015 KD'000	2014 KD'000
Other payables and marine sub-charter	567,224	553,891
Short-term bank loans	216,766	204,747
Provision for annual leave and accrued compensation	181,676	174,685
Payable to contractors	138,271	117,242
Accruals	246,902	173,118
Payable to exchange partners	37,588	62,515
Other credit balances	186,701	421,118
	<u>1,575,128</u>	<u>1,707,316</u>

Short-term bank loans include secured and unsecured facilities and bear interest at prevailing market rates (Note 20.2).

Other credit balances include funds recovered from former employees, against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities, together with accumulated interest (Notes 15 and 34).

22. Amounts due to Ministry of Oil

Amounts due to the Ministry of Oil represent the net amounts payable for purchases of crude oil and natural gas and for certain activities performed by the Corporation and its subsidiaries on behalf of the Ministry of Oil.

These activities primarily relate to the exploration for and production of crude oil and natural gas in the State of Kuwait and the local marketing (within the State of Kuwait) of refined products and liquefied petroleum gas. The costs of the wholly owned subsidiaries, Kuwait Oil Company K.S.C. and Kuwait Gulf Oil Company K.S.C., are charged to this account.

23. Profit available for distribution

In accordance with Article 12 of Law Decree No. 6 of 1980, the profit for the year, after transfer to reserves, is payable to the Government of the State of Kuwait.

On its meeting dated 21 January 2010, the Corporation's Board of Directors agreed on a recommendation to the Supreme Council for Petroleum that the Corporation's profits for the five-year plan (2010 – 2015) be retained, subject to approval of the Supreme Council for Petroleum.

The Board of Directors has decided to retain the profit for the year ended 31 March 2015, subject to the approval of the Supreme Council for Petroleum.

Restatement

In reference to Supreme Council for Petroleum resolution no. 2/84/(3/2008) and 4/87/(1/2010), the Supreme Council for Petroleum decided to retain net profits for the years ended 31 March 2008 and 31 March 2009 respectively.

Subsequent to above, in 2014, the National Assembly approved the consolidated financial statements of the Corporation for years 2007-08 and 2008-09 and issued Law No.60 and 61 dated 22 July 2014 ("Laws"). The Laws did not include the Supreme Council for Petroleum's approval to allow the Corporation to retain profits and approved to distribute profits for the above said years. As a result, the Ministry of Finance requested the Corporation to distribute and transfer the net profits for the above said years amounted to KD 3,975,946 thousand to the State of Kuwait. In light of above, the management of the Corporation decided to account for this distribution retrospectively by restating the prior year numbers in accordance with IAS 8, *Accounting Policies, Changes in accounting Estimates and Errors*. As a result, the Group adjusted its consolidated financial statements of 1 April 2013 and 31 March 2014 by debiting the general reserve and crediting the profit available for distribution by the above said amount.

24. Revenues from consultancy and other operations

	2015 KD'000	2014 KD'000
Consultancy and construction	34,477	30,268
Marine operations	30,101	34,446
Merchandise and other services	39,366	48,964
	<u>103,944</u>	<u>113,678</u>

25. Investment income

Investment income mainly represents income from managed portfolios.

26. Other income (net)

	2015 KD'000	2014 KD'000 (Restated)
(Loss) / gain on disposal of property, plant and equipment	(1,563)	3,361
Recovery of financial cost	187,238	145,443
Foreign currency exchange gain/ (loss)	213,437	(38,842)
Miscellaneous income- net	14,505	62,577
UN compensation claims (Note 29)	17,901	24,579
	<u>431,518</u>	<u>197,118</u>

Miscellaneous income includes an amount KD 52 million waived off related to MEW long term receivables (Note 8).

27. Directors' remuneration

The directors' remuneration represents the remuneration relating to the Board of Directors of the Corporation, which are subject to approval of the Supreme Council for Petroleum.

28. Staff costs

Total staff costs for the year amounting to KD 1,390,883 thousand (2014: KD 1,341,092 thousand) are included in cost of revenues and general and administrative expenses shown on the consolidated statement of comprehensive income. Of the staff costs for the year, KD 1,083,656 thousand (2014: KD 906,859 thousand) has been included in cost of revenues and KD 307,227 thousand (2014: KD 434,233 thousand) has been included in general and administrative expenses. Staff costs consist of the following:

	2015 KD'000	2014 KD'000
Salaries, wages and other benefits	1,409,580	1,321,081
Pension and other retirement benefit expenses:		
- defined contribution	1,441	950
- defined benefit	(31,041)	2,839
Compensation of key management personnel (Note 31):		
- short-term benefits	5,978	7,879

- termination benefits	4,925	8,343
	<u>1,390,883</u>	<u>1,341,092</u>

29. UN compensation claims

In respect of losses suffered as a result of the Iraqi invasion and occupation of Kuwait in 1990, the Governing Council of the United Nations Compensation Commission has approved an amount of USD 18,864 million (equivalent to KD 5,689 million) to the Group and the Government of the State of Kuwait for payment as and when funds become available. As at the reporting date, the Corporation received USD 12,932 million (KD 3,900 million). During the year, a further amount of KD 17.9 million (2014: KD 24.6 million) was received in part settlement and recognised as other income (Note 26).

30. Fair value information

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Investment securities classified as 'Available for sale' are stated at fair values except for certain investments carried at cost. For other financial asset and liabilities carried at cost less impairment or amortized cost, the carrying value is not significantly different from their fair values as most of these assets and liabilities are of short term maturity or re-priced immediately based on market movement in interest rates.

The Group, mainly through a wholly owned foreign subsidiary, uses derivative financial instruments for managing risks arising from changes in crude oil and petroleum product prices, exchange rates and interest rates. The Group does not use derivatives for speculative purposes.

All foreign currency derivative instruments are marked to market at the end of each month. At year end the gross contract amounts of such contracts, none of which extended beyond 12 months, were as follows:

	2015 USD'000	2014 USD'000	2015 KD'000	2014 KD'000
Foreign exchange contracts	1,066,055	1,222,340	320,589	344,865

The net fair value of these contracts was a liability of KD 10,646 thousand (2014: KD 480 thousand).

Determination of fair value and fair value hierarchy:

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: quoted prices in active market for the same instrument.

Level 2: quoted prices in active market for similar instruments or other valuation techniques for which all significant inputs are based on observable market data and

Level 3: valuation techniques for which any significant input is not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
31 March 2015				
Available-for-sale financial assets	6,606,330	72,011	-	6,678,341
31 March 2014				
Available-for-sale financial assets	5,293,616	77,126	-	5,370,742

There have been no transfers between fair value levels during the year ended 31 March 2015.

The above table does not include KD 136 million (2014: KD 574 million) of available-for-sale financial assets that are measured at cost, less any impairment losses, and for which disclosure of fair value is not provided.

31. Related parties

Related parties represent associates, joint ventures, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. All related party transactions are carried out on terms approved by the Group's management.

The principal transactions with related parties included in profit or loss are as follows:

	Associates and joint ventures KD'000	Other related parties KD'000	Total 2015 KD'000	Total 2014 KD'000
Purchases	2,460	-	2,460	4,249
Cost of production	13,231	-	13,231	14,309
Marketing fees received	1,947	-	1,947	2,006
Compensation of key management personnel (Note 28)	-	10,903	10,903	16,222

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

	Associates and joint ventures KD'000	Other related parties KD'000	Total 2015 KD'000	Total 2014 KD'000
Non-current receivables from joint venture	14,063	-	14,063	16,487
Due from related parties	-	387	387	328
Other receivables and prepayments	13,051	-	13,051	156,820
Due to related parties	5,032	944	5,976	1,283

32. Financial risk management

The Group has exposure to the following risks from its use of 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. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Chief Executive Officer has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The Risk Management Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse 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 the 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 Audit 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. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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 Group's receivables from customers and investment securities. The Group has estimated and gathered all factors relating to the exposure of credit risk.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. Approximately 60 percent (2014: 66 percent) of the Group's outstanding trade receivables is attributable to transactions with 12 customers (Notes 8 and 12). However, geographically there is no concentration of credit risk.

The Pricing Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer particularly for long term sales contracts, which represents the maximum open amount without requiring approval from the Pricing Committee.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2015 KD'000	2014 KD'000
Other non-current assets (other than deferred expenses)	47,806	212,155
Available-for-sale investments	6,814,130	5,944,774
Trade receivables	2,882,126	3,898,522
Bank balances and cash	5,458,213	5,313,032
	<u>15,202,27</u>	<u>15,368,48</u>
	5	3

The maximum exposure to credit risk net of impairment losses for trade receivables and other non-current assets (other than deferred expenses) at the reporting date by geographic region was:

	2015 KD'000	2014 KD'000
Domestic	459,184	938,992
Europe (other than United Kingdom)	2,018,659	2,711,587
United Kingdom	392,231	401,911
Other regions	59,858	58,187
	<u>2,929,932</u>	<u>4,110,677</u>

The maximum exposure to credit risk net of impairment losses for trade receivables and other non-current assets (other than deferred expenses) at the reporting date by type of customer was:

	2015 KD'000	2014 KD'000
Government	838,749	1,134,934
Private sector	2,091,183	2,975,743
	<u>2,929,932</u>	<u>4,110,677</u>

Impairment losses

The aging of trade receivables and other non-current assets (other than deferred expenses) at the reporting date was:

	Gross 2015 KD'000	Impairment 2015 KD'000	Gross 2014 KD'000	Impairment 2014 KD'000
Not past due	2,679,459	-	3,392,978	-
Past due not more than one year	221,342	-	595,456	-
Past due more than one year	39,655	(10,524)	132,767	(10,524)
	<u>2,940,456</u>	<u>(10,524)</u>	<u>4,121,201</u>	<u>(10,524)</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2015 KD'000	2014 KD'000
Balance at 1 April	10,524	16,109
Provision no longer required	-	(5,585)
Balance at 31 March	<u>10,524</u>	<u>10,524</u>

Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least A1 from Standard & Poor's and A from Moody's. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

At 31 March 2015

Non-derivative

financial liabilities

Term loans and short term borrowings									
Trade payables									
Other payables and accruals									
Taxes payable									
Amounts due to Ministry of Oil									
	Carrying amount KD'000	Contractual cash flows KD'000	6 months or less KD'000	6 to 12 months KD'000	1 - 2 years KD'000	2 - 5 years KD'000	More than 5 years KD'000		
	1,005,218	1,338,608	-	77,552	276,128	859,184	125,744		
	780,138	780,138	-	780,138					
	1,575,128	1,575,128	-	1,575,128	-	-	-		
	206,379	206,379	206,379	-	-	-	-		
	2,452,366	2,452,366	2,452,366	-	-	-	-		

At 31 March 2014

Non-derivative

financial liabilities

Term loans and short term borrowings									
Trade payables									
Other payables and accruals									
Taxes payable									
Amounts due to Ministry of Oil									
	Carrying amount KD'000	Contractual cash flows KD'000	6 months or less KD'000	6 to 12 months KD'000	1 - 2 years KD'000	2 - 5 years KD'000	More than 5 years KD'000		
	612,244	612,244	171,812	26,256	27,572	302,140	84,464		
	816,115	816,115	-	816,115	-	-	-		
	1,707,316	1,707,316	-	1,707,316	-	-	-		
	288,405	288,405	-	288,405	-	-	-		
	3,334,064	3,334,064	-	3,334,064	-	-	-		

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.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, the Euro, USD and Pound Sterling (GBP). The Group's exposure to the risk of changes in foreign exchange rates relates primarily to such operating activities and the Group's net investments in foreign subsidiaries. The currencies in which these transactions primarily are denominated are Euro, USD, GBP, Australian Dollar (AUD), Japanese Yen (JPY) and Bahraini Dinar (BHD).

The Group's net significant exposure to foreign currency risk was as follows based on notional amounts.

	2015 Equivalent position long/(short) KD'000	2014 Equivalent position long/(short) KD'000
EURO	11,665	7,039
USD	8,424,981	8,676,552
GBP	556	461
AUD	(3,890)	(13,670)
JPY	105	46
BHD	33,652	43,239
Others	(18,410)	8,058

Sensitivity analysis

A five percent strengthening of the KD against the following currencies at 31 March 2015 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2014.

Effect in thousands of Kuwaiti Dinars

	Equity	Profit or (loss)
31 March 2015		
EURO	583	583
USD	421,249	97,253
GBP	28	28

AUD	(195)	(195)
JPY	5	5
BHD	1,683	1,683
Others	(921)	(921)
	<u>422,432</u>	<u>98,436</u>

Effect in thousands of Kuwaiti Dinars	Equity	Profit or (loss)
31 March 2014		
EURO	352	352
USD	433,828	176,542
GBP	23	23
AUD	(684)	(684)
JPY	2	2
BHD	2,162	2,162
Others	403	403
	<u>436,086</u>	<u>178,800</u>

Interest rate risk

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	2015	2014
	KD'000	KD'000
<i>Variable rate instruments</i>		
Financial assets	6,896,643	6,702,174
Financial liabilities	746,258	212,245

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased or decreased equity by KD 68,966 thousand (2014: KD 67,022 thousand).

Other market price risk

Equity price risk arises from available-for-sale equity securities. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices.

The primary goal of the Group's investment strategy is to maximise investment returns.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

Sensitivity analysis

For the majority of the Group's equity investments, quoted market prices are readily

available. For such investments classified as available-for-sale, a 3% increase or decrease in stock prices at the reporting date would have increased or decreased equity by KD 82,642 thousand (2014: an increase or decrease of KD 55,776 thousand). The analysis is performed on the same basis for the year ended 31 March 2014.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net profit divided by average capital employed.

There were no changes in the Group's approach to capital management during the year.

Neither the Corporation nor any of its subsidiaries are subject to externally imposed capital requirements.

33. Expenditure commitments

a) Operating lease commitments

The minimum annual rental commitments under operating leases are as follows:

	2015 KD'000	2014 KD'000
Future minimum lease payments:		
Within 1 year	25,273	38,552
Between 1 and 5 years	79,129	116,145
After 5 years	135,409	135,580
Aggregate operating lease expenditure contracted for at the reporting date	239,811	290,277

b) Capital expenditure commitments

	2015 KD'000	2014 KD'000
<i>Capital expenditure commitments</i>		
Estimated capital expenditure contracted for at the reporting date	4,390,289	2,666,730

34. Contingent assets/ liabilities

Contingent assets

Legal case

A new management that was formed in 1992 at one of the subsidiary companies discovered certain fraud cases and financial irregularities in the subsidiary company's contracts and bank accounts and, therefore, the subsidiary company's Board of Directors formed a fact-finding committee to investigate those irregularities.

On 6 January 1993, the subsidiary company submitted a report to His Excellency, the Attorney General on its suspicion of occurrence of financial irregularities in previous years, whereby the Public Prosecution conducted the necessary investigations and prepared the indictment sheet in December 1993 and its regulation against five of the accused parties.

One of the accused parties absconded before submitting the notification to His Excellency the Attorney General. Another party admitted the facts before the Attorney General, and made payment of US\$ 6,200 thousand on allegation that this was the entire amount taken by him. This amount was deposited in a special bank account as a fixed deposit of the subsidiary company and was invested until it amounted to US\$ 13,157 thousand (KD 3,754 thousand) including interest as at 31 March 2014 (2014: US\$ 13,157 thousand (KD 3,754 thousand)).

The case was deliberated before different Kuwaiti courts, culminating in the two cassation verdicts Nos. 137 and 138 of 1997.

Mandated by the former Minister of Oil, Sheikh Saud Al-Nasser Al-Sabah, the subsidiary company sent a letter to the Attorney General on 14 December 1998. The Attorney General considered this letter as a notification and transferred the same to the Investigating Committee concerned with court actions against Ministers, which, in its first formation, considered it as a notification and, subsequently, undertook the investigation procedures. The subsidiary company provided the committee with 40 documents including those deliberated to the English courts with respect to the certain amounts embezzled by the accused parties or other parties. Subsequently, this committee resigned and a new committee was formed on 29 April 2000. On 16 May 2001, the committee considered that the case was not fully complete, without discussions with any witness.

On 29 May 2001, the former Minister of Oil, Adel Al-Subaih sent a notification to this committee against the five defendants. The defendants include the former Minister of Oil. On 19 May 2003, the committee considered the action as serious and heard statements of witnesses. On 30 October 2007, a resolution was issued from the Investigating Committee to suspend the notification submitted against the former Minister of Oil, due to the lack of evidence. On 26 December 2007, His Excellency the Minister of Oil by proxy submitted a grievance complaint from the suspension decision to the Court of Ministers and on 27 December 2007 the attorney of the subsidiary company submitted another grievance complaint. The judgment was challenged before the Court of Cassation. On 17 February 2009, the court ruled to dismiss the appeal.

In parallel steps, the subsidiary company has initiated civil cases in the United Kingdom, Switzerland, and other countries, and with the efforts of those working on the case, it won the case filed in the United Kingdom and obtained a judgement against three of the defendants for an amount of US\$ 136,000 thousand excluding the interest. In addition to this, the case ended with the rejection by the UK House of Lords on 10 December 2000 of the appeal submitted by a former employee. An amount of US\$ 85,351 thousand has been collected till 7 May 2006. This collected amount was invested in deposits. The collected amounts along with interest till 7 May 2006 amounted to US\$ 92,757 thousand (which has been subsequently distributed) plus an amount of US\$ 6,200 thousand transferred by the Public Prosecution from the accused party and received by Kuwait Oil Tanker Company in Kuwait, which was invested in a

deposit renewable with its interest thereon pending a decision on crime No. 275/93. The deposit of US\$ 6,200 thousand along with accumulated interest reached US\$ 13,157 thousand till 31 March 2014 (2013: US\$ 13,157 thousand). Legal measures are being carried out to collect the remaining balance. However, the uncollected amounts of US\$ 151,709 thousand pending in the liability of the accused parties comprise of the balance remaining from the total amounts awarded in favour of the subsidiary company according to the verdict from London, and inclusive of the interest, till August 2005, amounting to US\$ 123,559 thousand plus such amounts, being the difference between the amounts claimed before London Court and those mentioned in the Public Prosecution Charge Report in connection with crime No. 275/93, amounting to US\$ 25,000 thousand, for which a civil case was filed where a final verdict was announced in the session dated 7 March 2011 by rejecting the appeal, plus an amount of US\$ 3,150 thousand (Chesapeake – selling debris of Surf City Vessel) for which a case was filed where a final verdict was announced in the session dated 7 March 2011 by rejecting the appeal.

A committee was formed comprising the subsidiary company and the Corporation to distribute the amounts collected from the accused parties to the entitled parties, after deducting the expenses of the lawsuits since their beginning to date. Subsequently, the Audit Committee of the Corporation approved on 7 May 2006 the report submitted by the subsidiary company on the method of distributing the amounts collected from the accused parties, net of the expenses of the lawsuit from 1992-1993 till 2005-2006, as 54% to the subsidiary company and 46% to the Corporation. The remaining distributable amount was US\$ 61,607 thousand. The Corporation's share amounting to US\$ 28,339 thousand was transferred on 24 May 2006.

The subsidiary company's share amounting to US\$ 33,267 thousand (KD 9,714 thousand) and the lawsuit expenses of US\$ 31,150 thousand (KD 9,096 thousand) deducted from the collected amounts, were included in the consolidated statement of income for the year ended 31 March 2007.

Further, the subsidiary company's attorney in Kuwait filed civil cases before the Kuwaiti courts against the accused parties and certain persons who received the embezzled amounts, to claim refund of the funds embezzled by the accused parties and others. Verdicts were passed in a number of these cases to temporarily suspend the civil case pending a decision in crime No. 275/93, while the other cases are still being deliberated before the courts and experts. In one of these cases, the attorney of the subsidiary company filed civil case No. 2008/3019 (commercial/ civil/ total/ government)/8 against four accused parties for a temporary civil compensation amounted to KD 5 thousand. The court decided to refer the case to Sixth Civil Department where the case number was changed to 2009/1321 (civil/total)/6 and a first degree verdict has been issued against the second, third and fourth accused parties to pay an amount of KD 5 thousand as a compensation. This verdict has been appealed by one of the accused heir. On 19 December 2011, a verdict has been issued by Court of Appeals against the four accused parties to jointly pay an amount of KD 5 thousand and to pay KD 300 as an attorney fees.

An appeal was made at the Court of Cassation by the heirs of a former employee under case No. 2012/603 cassation V/2 to the verdict issued by Court of Appeals No. 2012/271 Commercial /4. At the session dated 28 May 2012, the court has sentenced to refuse a request to cease the enforcement of the verdict.

An amount of Sterling Pounds 120 thousand was received on 11 October 2006, and invested in a deposit renewable with interest thereon. This amount plus interest amounted to Sterling Pounds 143 thousand (KD 64 thousand) as at 31 March 2015 (2014: Sterling Pounds 142 thousand (KD 67 thousand)), and will be distributed later, according to the above agreed distribution share.

Further, the subsidiary company's attorney in Kuwait filed a lawsuit No. 2025/2010 (Commercial/ total) before the Kuwaiti courts to claim implementing a foreign verdict pronounced by London court in favor of the subsidiary company on 15 December 1998 for the case No. 1212/2004 and its appeals. Also, he requested to annex the verdict in its executive formula pursuant to provision of Article No. (1) of Law No. 38 for 2007 concerning amending paragraph No. 1 of Article No. (199) of Law of Civil and Commercial Procedure issued by Decree Law No. 38 for 1980.

The court verdict has been issued by the judge to annex the foreign verdict in the executive formula and command its implementation in the State of Kuwait. Discrimination has been petitioned by the accused and appealed to stop the verdict issued by the Court of Appeal, however on 8 August 2011 the Court of Cassation ruled to refuse that request, with no decision taken about the verdict of court of cassation in the original legal case.

A hearing session was scheduled on 8 August 2012 as the first hearing for the appeal discrimination to the verdict No. 3273/2010 to commercial appeal / 5 and case under No. 133/2011 discrimination Commercial/4. On 12 April 2012, the court ruled to accept the two appeals in their form and regarding their merits the court referred the challenged verdict to court of cassation and obligated the first appellee (respondent) in both appeal cases to settle the expenses in addition to KD 20 as attorney fees. Secondly, regarding the merits of the two appeal cases No. 3273 and 3287 of 2010/ commercial, the court resolved annulment of the appealed sentence and inadmissibility of the proceedings since it was previously ruled by the case No. 246 of 2002 commercial total and obligated the appellee in the two appeal cases to settle expenses for two degrees plus KD 20 for attorney fees.

Further, the subsidiary company's attorney filed a law suit No. 3560/2010 (Commercial/ total) before the Kuwait courts to claim implementing a foreign verdict pronounced by London court in favour of KOTC and SITKA on 17 October 2008. Also, he requested to annex the verdict in the executive formula. However, the law suit is still pending at the Kuwaiti courts. A first degree court verdict has been issued on 15 January 2012 to dismiss those proceedings which became final sentence.

Also, the subsidiary company's attorney filed a lawsuit before Kuwaiti courts under No. 1527/2012 civil total / 12 against the heirs of a former employee and others to claim the final compensation which includes the sentence in crime No. 275/1993, as well as the amounts subject to the judgment issued in London that the Court of Cassation rejected to annex in the executive formula, since the case was deliberated by the Court of First Instance and on 4 December 2014, the Court sentenced to reject the case and the verdict has been appealed and registered under No. civil 5621/2014. A final verdict is expected to be on next hearing scheduled on 9 June 2015.

Dry Cargo (358/94 crimes)

This case has been filed against five indictees. This case was referred to the Criminal Court on 2 April 2006 for charges of embezzling funds, illegal profits and forgery. The value of the amounts claimed in the Public Prosecution's report amounted to approximately US\$ 10,000 thousand.

In the hearing on 17 June 2006, the court ruled for the imprisonment of indictees for five years with labour and execution, to dismiss them from their jobs, oblige them to refund the embezzled funds, and fine each of them an amount equivalent to that embezzled by him, as well as to deport the third, fourth and fifth accused parties from the country after serving the said penalty, and to refer the civil case to the competent civil court. The fourth indictee challenged the verdict passed against him. In the hearing on 16 September 2006, the court ruled to dismiss the objection and upheld the challenged verdict, which was appealed by the second and fourth indictees. On 24 July 2007, a verdict was issued by the court of appeal condemning the accused and partially amending the judgment through deducting the equivalent of the present value in US dollars of an amount of KD 300 thousand paid by the second party of the adjudged fine and by refunding penalties as well as clearing the fourth indictee from crimes attributed to him. The appealed judgment was challenged before the Court of Cassation. On 13 May 2008, the court ruled to dismiss the appeal.

Contingent liabilities

Pursuant to the acquisition by a subsidiary of an interest in a joint venture in Australia, encompassing production from the Harriet field and various exploration permits, the subsidiary has entered into three deeds of cross charges in favour of each of the other participants for the purpose of securing the subsidiary company's obligations under the joint venture agreement. The cross charges comprise a prior ranking charge over the subsidiary's interest in the joint venture to a limit of Australian \$ 250 million (KD 73 million).

On 23 November 2006, a subsidiary company issued a Notice of Force Majeure ("HJV Force Majeure") to a gas buyer of the Harriet Joint Venture ("HJV"). Three of the four limbs of the HJV Force Majeure continue to be in force. Any claim in relation to any shortfall in gas supply under the relevant contract is subject to the HJV Force Majeure and the HJV sellers' limitation of the liabilities set out in the contract. In September 2011, the court heard the subsidiary and its co-venturers' application for declaratory judgement on the correct construction of the Gas Sales Agreement ("GSA"). The parties entered into discussions on the matters in dispute, and on 1 November 2012, the parties signed Settlement Principles. The court has been requested to defer indefinitely the finalisation of judgment. The settlement deed has been signed by the subsidiary and the gas buyer. During 2014, this has been resolved through settlement.

The Group had contingent liabilities of approximately US\$ 46.3 million (KD 13.9 million) at 31 March 2015 (2014: US\$19 million (KD 6 million)). These principally relate to a variety of tax, legal and regulatory disputes, all of which are being vigorously contested by one of the subsidiaries of the Group.

35. Business combination

Current year business combinations:

During the year, Kuwait Foreign Petroleum Exploration Company K.S.C.C., a subsidiary, acquired 30% interest in Duverney formation; which approximately represents 330,000 net acres of Chevron operated leases in the emerging liquids rich Kaybob area of Alberta, Canada.

The acquisition was accounted for as a business combination as the assets acquired met the definition of a business combination. The acquisition has been accounted for using the acquisition method and the provisional fair values of the identifiable assets and liabilities of acquired interests as at the date of acquisition (12 November 2014) were:

	KD'000
Exploration and evaluation assets (intangible assets)	409,455
Oil and gas properties	30,148
Total identifiable net assets at fair value	439,603
Represented by:	
Consideration satisfied by cash	297,182
Deferred consideration	142,421
Total purchase consideration	439,603

The subsidiary has incurred KD 1,426 thousand of transaction costs related to the acquisition, which were recognised in general and administrative expenses in the consolidated income statement. The tax basis of assets assumed equalled their fair values. All the fair values calculated for the purpose of IFRS 3- *Business Combinations* are classified in level 3 in accordance with IFRS 13- *Fair Value Measurement*.

On 30 June 2014, KPC (Aruba) A.E.C., a subsidiary, acquired the share capital and obtained control of the following companies from Royal Dutch Shell specialising in the marketing of petroleum products, primarily relating to a network of 795 retail service stations, its related supply chain and an aviation company. As a result of the acquisition, the subsidiary is expected to increase its presence in the Italian market. Management did not identify any material intangible asset to be recognised apart from goodwill as the retail network acquired is comprised mostly of company owned sites where the geographical location was deemed as the key value driver. According to IFRS 3 "*Business combinations*", the presence in geographic locations or markets is not an intangible asset to be recognized separate from goodwill.

	Ownership	Country of incorporation
KRI S.p.a. (formerly Shell Italia S.p.a.)	100%	Italy
AICO Uno S.r.l.	100%	Italy
KAI S.r.l. (formerly Shell Italia Aviazione S.p.a.)	100%	Italy
Continentale Italiana S.p.a.	51%	Italy

Prior to the business combination described above, the subsidiary held a 25% interest in Continetale Italiana S.p.a.. Group's ownership interest increased to 76% as a result of the business combination.

The following table summarises the consideration paid for the entities, the fair value of assets acquired, liabilities assumed, goodwill on acquisition and the non-controlling interest at the acquisition date:

	Provisional fair values KD'000
Intangible assets	1,504
Property, plant and equipment	84,498
Equity investments	3,308
Deferred tax assets	25,562
Inventories	33,681
Trade and other receivables	88,112
Cash and cash equivalents	601
Borrowings	(3,007)
Provisions	(28,870)
Pension liabilities	(1,197)
Trade and other payables	(154,572)
Net assets acquired	49,620
Non-controlling interest	(1,203)
Goodwill on acquisition (Note 6)	61,648
Total consideration	<u>110,065</u>
Consideration paid by cash	110,065
Cash acquired	(601)
Net cash outflow	<u>109,464</u>

The fair value of the acquired identifiable net assets of KD 110 million is provisional pending receipt of the final valuations for those assets. A provision of KD 28.9 million has been recognised for environmental matters related to Silone, a logistics hub in northeast Italy. As of 31 March 2015, there has been no change in the amount recognised (except for the exchange rate effect) at acquisition date, as there has been no change in the range of outcomes or assumptions used to develop the estimates.

Prior year business combinations:

Kuwait Foreign Petroleum Exploration Company K.S.C.C., a subsidiary, acquired 100% of the share capital of RISCO Energy PTE Limited ("RISCO") and Norske AEDC AS ("Norske") on 4 March 2013 and 16 June 2013 respectively for cash and deferred consideration of KD 74,223 thousands and KD 38,716 thousands. The acquisition has been accounted for in accordance with IFRS 3 "Business combinations". The consideration paid and the fair values of the assets acquired and liabilities assumed are summarised below;

	Risco KD'000	Norske * KD'000	Total KD'000
Intangible assets	11,240	-	11,240
Property, plant and equipment	47,582	13,131	60,713
Investments in equity accounted investees	7,777	-	7,777
Deferred tax assets	-	55,052	55,052
Inventories	2,054	39	2,093
Other current assets	6,550	11,844	18,394
Bank balances and cash	3,274	667	3,941
Trade and other payables	(5,391)	(805)	(6,196)
Deferred tax liabilities	(13,028)	(10,233)	(23,261)
Non-current liabilities	(1,261)	(24,632)	(25,893)
Net assets acquired	<u>58,797</u>	<u>45,063</u>	<u>103,860</u>
Consideration paid	67,876	6,347	74,223
Deferred consideration liability (a)	-	38,716	38,716
Goodwill on acquisition	<u>9,079</u>	<u>-</u>	<u>9,079</u>
Consideration paid by cash (b)	67,876	6,347	74,223
Cash acquired	<u>(3,274)</u>	<u>(667)</u>	<u>(3,941)</u>
Net cash outflow	<u>64,602</u>	<u>5,680</u>	<u>70,282</u>
Total consideration (a+b)	<u>67,876</u>	<u>45,063</u>	<u>112,939</u>

* The amounts reflect the restated fair values of the assets and liabilities following finalisation of the purchases price allocation "PPA" discussed below.

The fair value of the assets acquired and liabilities assumed at the acquisition date, after PPA exercise for Norske are summarised as follows:

	Provisional fair values	PPA and other adjustments	Fair value after PPA and other adjustment s
	KD'000	KD'000	KD'000
Assets			
Property, plant and equipment	13,131	-	13,131
Deferred tax assets	18,837	36,215	55,052
Inventories	39	-	39
Other current assets	11,844	-	11,844
Bank balances and cash	667	-	667
Trade and other payables	(805)	-	(805)
Deferred tax liabilities	(10,233)	-	(10,233)
Non-current liabilities	(24,632)	-	(24,632)
Net assets acquired	8,848	36,215	45,063
Consideration paid by cash	6,347	-	6,347
Deferred consideration liability	21,972	16,744	38,716
Goodwill on acquisition	19,471	(19,471)	-
Consideration paid by cash	6,347	-	6,347
Cash acquired	(667)	-	(667)
Net cash outflow	5,680	-	5,680

All the fair values calculated for the purpose of IFRS 3- *Business Combinations* are classified in level 3 in accordance with IFRS 13- *Fair Value Measurement*.

36. Investment in joint operations

Kuwait Gulf Oil Company K.S.C.C, a subsidiary, has participation in two joint operations for exploring, drilling, and production of oil and gas, which are as follows;

- Al Khafji Joint Petroleum Operation ("KJO"); and
- Wafra Joint Operation ("WJO").

The consolidated financial statements include the following items that represent the Group's interest in joint operations:

	KJO		WJO	
	31 December 2014 KD'000	31 December 2013 KD'000	31 December 2014 KD'000	31 December 2013 KD'000
Statement of financial position				
Total assets	876,633	806,869	388,133	345,993
Total liabilities	(154,611)	(149,599)	(76,305)	(57,959)
Net assets	722,022	657,270	311,828	288,034
Statement of profit or loss and other comprehensive income				
Income	321	628	914	56
Expenses	(175,362)	(201,509)	(162,471)	(141,281)
Net expenses for the year	(175,041)	(200,881)	(161,557)	(141,225)
Proportionate share in joint operation capital commitment	262,934	269,223	16,475	4,889

Proportionate share in joint operating lease commitments

Minimum operating lease commitments on non-cancellable lease are as follows:

	31 December 2014 KD'000	31 December 2013 KD'000
Not later than one year	18,781	15,903
Later than one years and not later than five year	24,136	21,631
Later than five years	1,428	1,444
	44,345	38,978

During the year, a decision was taken unilaterally by the Chairman, Joint Operations Committee, KJO to shut down KJO's crude oil production facilities with effect from 16 October 2014. This decision was neither endorsed by Joint Operations Committee nor Joint Executive Committee of KJO. The management is currently assessing measures to be taken to preserve the KJO's facilities during the shutdown period. Furthermore, Dorra offshore gas field development continues to be on hold as at 31 December 2014 pending instructions from the participants of KJO.

KJO's management does not expect the participants to discontinue the Khafji Joint Operation Agreement as management have been instructed to continue with all

drilling, maintenance operations and capital investment activities. Further, the participants have been funding the activities based on cash calls and have also approved the 2015 financial budgets to continue the operations.

Raffineria di Milazzo S.p.A.

The Group allocates revenues and expenses of its joint operation, Raffineria di Milazzo S.p.A., on the basis of the relative performance of each party to the joint arrangement and the parties have agreed to share the profit or loss relating to the arrangement on the basis of a specified proportion. The expected financial performance of the joint operation is designed to operate at break-even, or to generate losses that will be funded by the parties in the joint operation. The substantial part of the output produced at Raffineria di Milazzo S.p.A, is purchased by the parties in this joint arrangement.

The investment in Raffineria di Milazzo S.p.A is accounted for using the proportional consolidation method. As at 31 March 2015, the ownership remained unchanged. The consolidation method for revenues and expenses is made on the basis of the relative performance of each party to the joint arrangement.

The financial statements of Raffineria di Milazzo S.p.A are not presented since its not material for the Group.

37. Discontinued operations

On 21 June 2013, a subsidiary of the Group sold 100% interest in a joint venture, KUFPEC Indonesia (Pangkah) B.V ("Pangkah") for a cash consideration of KD 66,183 thousands and have no longer control over Pangkah.

38. Subsidiaries, associates and joint ventures

a) Principal subsidiaries registered in the State of Kuwait:

Directly held

Name of company	Proportion held	Principal activities
Kuwait Oil Company K.S.C.	100%	Exploration for and production of crude oil and natural gas in the State of Kuwait.
Kuwait National Petroleum Company K.S.C.	100%	Refining, LPG manufacturing, and local marketing of refined products.
Kuwait Oil Tanker Company S.A.K.	100%	Operation of a fleet of crude oil tankers and liquefied petroleum gas and oil product carriers.
Petrochemical Industries	100%	Production of petrochemical products

Company K.S.C.		and their distribution and marketing.
Kuwait Foreign Petroleum Exploration Company K.S.C.	100%	Exploration for and development of oil and gas outside the State of Kuwait.
Kuwait Aviation Fuelling Company K.S.C.	100%	Supply of aviation fuel.
Kuwait Gulf Oil Company K.S.C. (Closed)	100%	Exploration for and production of crude oil and natural gas.
Oil Sector Service Company K.S.C. (Closed)	100%	Liaison, public services and oil sector supporting services.

Indirectly held

Name of company	Proportion held	Principal activities
Kuwait Aromatics Company K.S.C.C. ("KARO")	80%	Producing and selling perfume products and other derivatives.

b) Principal directly and wholly-owned subsidiaries registered outside the State of Kuwait:

Name of company	Country of incorporation	Principal activities
KPC Holdings (Aruba) AEC	Aruba	Refining, and marketing of refined products
KPC Energy Ventures, Inc.	British West Indies	Investment in new energy technologies

c) Principal associates

Name of company	Country of incorporation	Proportion held	Principal activities
Kuwait Drilling Company K.S.C.	Kuwait	49%	Contract drilling
Equate Petrochemical Company K.S.C.C.	Kuwait	42.5%	Petrochemicals
Gulf Petrochemical Industries Company B.S.C.	Bahrain	33.33%	Petrochemicals
Kuwait Olefins Company K.S.C.C	Kuwait	42.5%	Petrochemicals

Al-Oula Local Fuel Marketing Company K.S.C.	Kuwait	24%	Fuel marketing
Al-Sour Fuel Marketing Company K.S.C.	Kuwait	24%	Fuel marketing
Equate Marketing Company E.C.	Bahrain	49.9%	Fuel marketing

d) Principal joint ventures

Name of company	Country of incorporation	Proportion held	Principal activities
The Kuwait Styrene Company K.S.C.C.	Kuwait	57.5%	Petrochemicals
MEGlobal B.V.	Netherlands	50%	Petrochemicals
MEGlobal Canada Inc.	Canada	50%	Petrochemicals
OKQ8 AB	Sweden	50%	Fuel marketing
Nghi Son Refinery Project	Vietnam	35.1%	Refining operations

e) Principal joint operations

Name of company	Country of incorporation	Effective equity interest at 31 March 2015
Raffineria di Milazzo S.p.A.	Italy	50%
Al Khafji Joint Petroleum Operation ("KJO")	Kuwait	50%
Wafra Joint Operation ("WJO")	Kuwait	50%

39. Oil and gas reserves related to a foreign subsidiary (unaudited)

	Crude Oil (mmbbls)	Gas (mmboe)	Total (mmboe)
Proved and probable reserves at beginning of year			
- Fields in production	46.10	115.62	161.72
- Projects under development	30.30	143.42	173.72
	<u>76.40</u>	<u>259.04</u>	<u>335.44</u>
Changes during the year			
- Discoveries	3.62	2.15	5.77
- Revision of previous estimates	0.03	(4.14)	(4.11)
- Purchase of reserves in place	7.25	149.25	156.50
- Production	(9.12)	(17.73)	(26.85)
	<u>1.78</u>	<u>129.53</u>	<u>131.31</u>
Proved and probable reserves at end of year			
- Fields in production	47.57	105.57	153.14
- Projects under development	30.61	283.00	313.61
	<u>78.18</u>	<u>388.57</u>	<u>466.75</u>

Proven reserves are the quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Probable reserves are those additional reserves which are not yet proven but together with proven reserves are estimated to have a 50% or better chance of being technically and economically producible. Oil reserves include the oil equivalent of natural gas. Oil and gas reserves cannot be measured exactly since estimation of reserves involves subjective judgment and arbitrary determinations. Therefore, all estimates are subject to periodic revision. The above oil and gas reserves belong to one of the group companies and relate to the Group's reserves outside Kuwait.

Reserves, reserves volumes and reserves related information and disclosures are referred to as "unaudited" as a means of clarifying that this information is not covered by the audit opinion of the independent auditor that has audited and reported on the Group's consolidated financial statements.

40. Comparative figures

Where necessary, certain comparative figures have been reclassified to conform to the current year's presentation. Such reclassifications did not affect previously reported profit or loss, equity or opening balances of the earliest comparative period presented.