



إحدى شركات مؤسسة البترول الكويتية  
A Subsidiary of Kuwait Petroleum Corporation



**ANNUAL  
REPORT**

**2020-2021**





إحدى شركات مؤسسة البترول الكويتية  
A Subsidiary of Kuwait Petroleum Corporation

# Annual Report

## 2020-2021

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حضرة صاحب السعوى  
الشيخ نواف الأحمد الجابر الصباح  
أمير دولة الكويت - حفظه الله ورعاه





سَمُو الشَّيْخِ مَشْعَلِ بْنِ عَبْدِ اللَّهِ الْجَابِرِ الصَّبَّاحِ  
وَلِيِّ عَهْدِ دَوْلَةِ الْكُوَيْتِ - حَفِظَهُ اللهُ وَرَعَاهُ



# Board Members



Sanad Al-Sanad

Chairman of the board

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Emad Sultan

Chief Executive Officer



Khaled Al-Khamees

Deputy Chairman



Wafaa Al-Zaabi

Board Member

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Menahi Al-Enzi

Board Member



Ali Al-Awadhi

Board Member



Khaled Al-Khayat

Board Member

# MANAGEMENT

**Emad Mahmoud Sultan**

Chief Executive Officer

**Taleb Al-Kharqawi**  
Manager Internal Audit

**Saud Faraj Al-Shammari**  
Manager Legal Affairs

**Ahmad Abdullatif Al-Kharraz**  
Manager CEO Office

**Khalid Al-Otaibi**

DEPUTY CEO  
Major Projects & Technical Services

**Nayef Al-Enezi**

DEPUTY CEO  
Drilling & Technical Support

**Bader Al-Attar**

DEPUTY CEO  
Planning & Finance

**Qusai Al-Amer**

DEPUTY CEO  
Administration

**Ali Al-Kandari**

DEPUTY CEO  
North Kuwait

**Mohammad Al-Zoubi**

DEPUTY CEO  
West Kuwait

**Bader Al-Munaifi**

DEPUTY CEO  
South & East Kuwait

**Abdulwahab Al-Mithin**

DEPUTY CEO  
Commercial & Corporate Services

**Ahmed Al-Eidan**

DEPUTY CEO  
Exploration & Gas

<b>Mousa Al-Obaidan</b> Manager Major Projects Group-I	<b>Abdullah Al-Zamami</b> Manager Major Projects Group-II	<b>AbdulRahman Al-Hejaili</b> Manager Major Projects Group-III	<b>Saif Al-Rasheedi</b> Manager Projects Support Services	<b>Ahmad Al-Zaabi</b> Manager Ahmadi Projects	<b>Sami Al-Yaqout</b> Manager Soil Remediation	<b>Khaled Al-Fozan</b> Manager Industrial Services
<b>Ali Al-Saleh</b> Manager Technical Support	<b>Bader Al-Azmi</b> Manager Development Drilling I	<b>Hadi Al-Ajmi</b> Manager Development Drilling II	<b>Saud Al-Foudari</b> Manager Drilling Engineering	<b>Mubarak Al-Mutairi</b> Manager Well Surveillance	<b>Bandar Al-Mutairi</b> Manager Deep Drilling	
<b>Farida Mohammed Ali</b> Manager Corporate Planning	<b>Mohammad Al-Abduljaleel</b> Manager Capital Administration & Control Group	<b>Yousef Al-Kandari</b> Manager Financial Systems & Control	<b>Khaled Al-Ajmi</b> Manager Financial Accounts & Services	<b>Ali Al-Naqeeb</b> Manager Corporate Information Technology		
<b>Aref Al-Abbasi</b> Manager London Office	<b>Hassan Al-Kandari</b> Manager Human Resources	<b>Waleed Al-Rubaian</b> Manager Training & Career Development	<b>Adel Essa Al-Ansari</b> Manager Contracts Manpower Kuwaitization	<b>Mohammed Al-Basry</b> Manager Public Relations & Information	<b>Dr.Emad Awadh</b> Manager Medical Group	<b>Nouri Al-Khatrash</b> Manager Ahmadi Services
<b>Meqdad Al-Naqj</b> Manager Fields Development NK	<b>Fuad Al-Shaikh Saleh</b> Manager Operations NK	<b>Ealian Hussain Al-Anzi</b> Manager Operations Support NK	<b>Ibrahim Al-Sammak</b> Manager Fields Development Group Heavy Oil NK	<b>Fahad Al-Kharqawi</b> Manager Support Services NK	<b>Adnan Al-Adwani</b> Manager Operation Group Heavy Oil	
<b>Ahmad Al-Jasmi</b> Manager Fields Development WK	<b>Falah Al-Azmi</b> Manager Operations WK	<b>Farouq Al-Hindal</b> Manager Support Services WK	<b>Ali Hashem</b> Manager Export Operations	<b>Sami Al-Sawagh</b> Manager Marine Operations	<b>Shamlan Al-Roomi</b> Manager Export Operations & Marine Operations Support Services	
<b>Eisa Al-Maraghi</b> Manager Fields Development S&EK	<b>Bader Al-Telaihi</b> Manager Operations SK	<b>Omar Ali Sadeq</b> Manager Operations EK	<b>Mansour Al-Khareji</b> Manager Support Services S&EK	<b>Bader Mahmoud</b> Manager Operation Support		
<b>Musleh Al-Otaibi</b> Manager HSE	<b>Adel Reja Al-Azmi</b> Manager Security	<b>Faisal Mirza</b> Manager Fire	<b>Yousef Al-Humoud</b> Manager Process Safety Management	<b>Aisha Al-Sulaili</b> Manager Contracts	<b>Khaled Al-Adsani</b> Manager Purchasing & Materials Management	<b>Musaed Al-Rasheed</b> Manager Commercial Support
<b>Mohammad Al-Qenaiei</b> Manager Gas Field Development	<b>Hamad Al-Zuwayer</b> Manager Gas Operations	<b>Ameena Saleh</b> Manager Operations Support (Gas)	<b>Abdulla Al-Mutairi</b> Manager Production & Projects (Gas)	<b>Hamad Al-Zaabi</b> Manager Innovation & Technology	<b>Mohammed Al-Ajmi</b> Manager Exploration Group	

# CONTENTS





Introduction	14
CEO Message	16
Achieve Sustainable Crude Oil Production Capacity	18
Achieve Sustainable Non-Associated Gas Production	22
Replace Reserves to Sustain Production	26
Strive for World-Class Operational Excellence	30
Optimize Portfolio Management	36
Facilitate Technology & Capability Transfer	40
Actively Manage Stakeholders to Satisfy Kwait's Energy Demands Efficiently	46
KOC's Ambitions	50
Financial Report	52

# INTRODUCTION



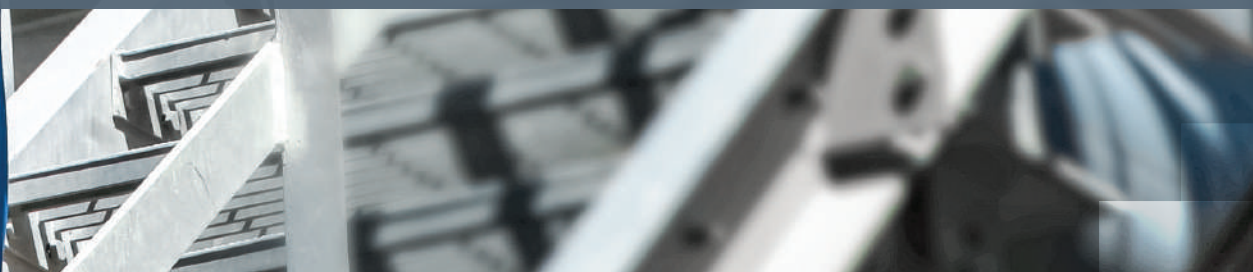
Over the course of the 2020/2021 fiscal year, KOC overcame many challenges to maintain its production figures and remain a reliable supplier of energy to the world. Despite the continuous challenges associated with the COVID-19 global pandemic, the Company registered a Crude Production Capacity of 2.579 Million BOPD and 541 MMSCFD of Non-Associated Gas Production. In addition, the Company was able to drill 418 new wells for Crude Oil and Non-Associated Gas across KOC fields, and the number of drilling and workover rigs reached 134 (78 drilling rigs and 56 workover rigs). KOC also registered four new Jurassic discoveries over the course of the past year.

In terms of major achievements, KOC is proud to confirm the Company has successfully exported the State of Kuwait's first shipment of Heavy Oil. This new export product has allowed KOC, in cooperation with Kuwait Petroleum Corporation (KPC), to diversify the types of Kuwait's crude oil export products. Today, the State of Kuwait now has the ability to export high-quality Light Oil and Kuwaiti Heavy Oil. Combined, these two major initiatives represent KOC's most important projects which have contributed to realizing the goals of the Company's 2040 Strategic Objectives.

Over the past year, KOC has carefully and consistently utilized advanced forms of technology in all aspects of its industrial and administrative undertakings in order to reduce costs and improve the performance of its operations. In addition, the Company has remained fully focused on its recruitment and training initiatives. In this regard, 92 new Kuwaiti graduates and experts were recruited while 3,949 Kuwaitis were accepted to work under KOC contracts. Meanwhile, the Company's Health, Security, Safety and Environment (HSSE) efforts remain focused on reducing KOC's Lost Time Injury Frequency Rate, which reached 0.013 accidents per 200,000 working hours at the end of the current fiscal year.

Over the course of the past year, KOC organized a number of initiatives and campaigns as part of its Corporate Social Responsibility efforts. In this report, a description of the Company's performance and achievements is put forth within the context of the Company's strategic objectives.

While the international community continues to address the challenges associated with the COVID-19 global pandemic, KOC has ensured that the Company's full support has been provided to the State of Kuwait's government agencies. This has included establishing, constructing, and equipping quarantine centers and field hospitals throughout the country which are built to the highest levels of health standards and specifications. These facilities were then delivered to the Ministry of Health and other relevant authorities in Kuwait. In addition, in February of 2021, the Ahmadi Hospital Medical Group, in cooperation with the Ministry of Health, commenced a vaccination program for KOC employees and other oil sector employees which has greatly contributed to speeding up the vaccination process in the State of Kuwait.



## CHIEF EXECUTIVE OFFICER'S MESSAGE



On behalf of all KOC employees, it is my honor to present this comprehensive Annual Report, which is the culmination of a concerted effort by a wide range of talented individuals from throughout KOC's areas of operation. The events of the past year have proven to be one of the most difficult periods in our Company's history; therefore, we are incredibly proud of what KOC has achieved during this timeframe, where the exceptional circumstances presented by the COVID-19 global pandemic continue to impact normal work procedures and daily life. Despite the seemingly insurmountable obstacles and uncertainty which have accompanied this global pandemic, I am proud to report that KOC employees have risen to the task of continuing our daily operations in order to solidify KOC's position and uphold our reputation as a reliable supplier of energy to the world.

Throughout KOC's history, which spans more than eight decades, we have faced many crises, tribulations, and unexpected changes; however, thanks to the perseverance of our dedicated workforce, we have managed to overcome them all throughout the years. Through the collective determination of our exceptional employees, KOC has once again emerged from a period of hardship with greater experience and a broader knowledge of how to address new and difficult circumstances and operational challenges. I would like to emphasize once again that successfully overcoming the unique adversity of the past year was only made possible thanks to the distinctive abilities of our highly capable and exceptionally talented employees from all KOC Directorates.

While the 2019-2020 fiscal year was characterized by the extreme uncertainty which accompanied the period of complete closure of many regular operations, the 2020-2021 fiscal year, which is the topic of discussion of this report, has become a symbol of recovery and return. It is with great pride that I can report our recovery plans have been conducted in accordance with our previously projected expectations, which is the result of careful, coordinated planning and an abidance to KOC's long-term vision.

After a long period in which KOC employees were required to work remotely in order to comply with government-mandated health and safety measures, it became clear to the Company's senior management that KOC would be required to amend a number of our traditional work practices. As a result, we began to lay the foundations for a new phase, which was no easy task for a company the size of KOC.

Initially, KOC adopted new mechanisms which allowed us to gradually return to work and perform our duties without any impact to the continuity of our operations. This allowed us to implement all of our essential plans, projects, and activities. This was followed by the introduction of an integrated planning mechanism which was successfully initiated to map out our return to work. Instructions were developed and circulated to employees, which were carefully followed to protect the health and safety of our employees.

While we succeeded in adapting to the new situation and fully resuming our activities and operations, a new task was added to our agenda. This task was not unfamiliar to us, as it relates to Corporate Social Responsibility, which is a critical pillar of KOC's strategic objectives. The focus of this initiative concerned itself with ensuring the health, safety, and security of Kuwait's society – a fundamental matter which KOC has spent many years aiming to protect.

It was therefore necessary for us, as a fundamental partner of the State of Kuwait, to support the efforts made by health authorities in combating COVID-19. In this context, we made various efforts and provided all forms of support to the Ministry of Health, which included delivering the entirety of the Ahmadi Specialized Hospital's staff and resources. Moreover, KOC established quarantine facilities in several areas, in addition to constructing the Kuwait Field Hospital in Mishref. Other health initiatives were also spearheaded by the Company, such as public awareness campaigns and health and safety programs for the local community.

As part of a concerted effort to actively fight against the pandemic, KOC's contribution included the construction of several vaccination centers distributed throughout the country. This included a vaccination center for the oil sector in Ahmadi and an innovative, state-of-the-art vaccination center at the Jaber Al-Ahmad Causeway, the first of its kind to provide a "Drive-Thru" vaccination service in Kuwait.

All of the aforementioned efforts were accompanied by the determination to continue our regular operations in the field, which allowed us to achieve even more accomplishments, the most notable of which was the initiation of the Heavy Oil project in North Kuwait, which has evolved into the largest oil project of its kind in the Gulf Cooperation Council, In addition; KOC proudly have achieved an average Free gas production of 541 mmscf/d which leads to achieving gas strategic objectives .

In terms of our environmental efforts and accomplishments, I am proud to announce that KOC has achieved an exceptional international accomplishment in regard to our Gas Flaring Reduction efforts. This incredibly beneficial initiative, which has been recognized by the World Bank, revealed that the State of Kuwait, represented by the Company, has become one of the world's leading nations in terms of Gas Flaring reduction efforts, which is in line with KOC's commitment to maintaining a healthy environment for a prosperous society.

Because of our belief in the necessity of continuing to develop the human element, which we consider our most valuable resource, KOC continues to launch and support many initiatives which aim to train and develop the talents of our employees. In this regard, the Company has introduced a new training strategy which is in line with the new standards imposed by the current global pandemic.

KOC also persisted in our adherence to recruiting more Kuwaiti nationals for positions throughout the Company. Despite the difficult circumstances, we managed to employ a considerable number of Kuwaitis, including both fresh graduates and individuals with previous work experience. Through this initiative, we aim to maintain a steady increase in the Kuwaitization rate at the Company, which reached 90.8%, excluding medical and nursing staff.

These achievements would not have been possible without the dedicated team spirit which is characterized by the efforts of our employees, in addition to the solidarity, cohesion, and coordination they display throughout all their undertakings. Therefore, I would like to thank each and every KOC employee for their loyalty and sacrifice. Their commitment to excellence at all levels of the Company's operations is what allows KOC to remain one of the world's most reliable suppliers of energy.

In the following pages, you will learn more about what KOC has accomplished throughout all our Directorates and areas of operation. In closing, it is our shared hope that we will overcome the challenges associated with the current circumstances so that we can restore our daily lives and routines as they existed before this global pandemic.

**With high respect and appreciation,**

**Emad Mahmoud Sultan**

**CEO of Kuwait Oil Company**



1<sup>st</sup>

# Strategic Objective

Achieve Sustainable Crude Oil Production Capacity





## 1. Crude Production Capacity

KOC's Average Crude Production Capacity reached 2.579 Million BOPD at the end of the 2020/2021 fiscal year, and the Company continues to make progress on plans to reach KOC's targeted Crude Production Capacity figures for the next fiscal year.

KOC overcame many technical challenges over the past year in order to maintain production throughout its areas of operation. In North Kuwait, the Company achieved an Average Crude Production Capacity of 563,000 BOPD. In South & East Kuwait, the Average Crude Production Capacity reached 1.391 Million BOPD while operations in West Kuwait resulted in the production of 461,000 BOPD. Meanwhile, the production of Light Oil reached an average Production Capacity of 163,000.

The following table displays the status of KOC's most important major projects throughout the Company's areas of operations, which aim to provide technical solutions to various challenges in the coming years:

Area	Project	Status
North Kuwait	Sabriyah Mauddud (SAMA) – EOR Pilot	Construction is ongoing
	Effluent Water Treatment & Injection Plant (NK) – Phase IV	Completed
South & East Kuwait	Gathering Center – 32	Construction is ongoing
	New Desalter Trains for Gathering Centers (9,10,19,21)	Completed
West Kuwait	Umm Gudair Water Plant	Construction is ongoing
	Multi Phase Pumps	Construction is ongoing

In terms of Heavy Oil activities at KOC, the Company registered an average Crude Production Capacity of 51,000 BOPD. The production of Heavy Oil remains one of the Company's most important projects, and it is a critical component of KOC's strategic objectives for the future.

Production from KOC's Heavy Oil project has reached an overall total production figure of more than 7 million barrels since the start of production operations on February 24th, 2020, which included the drilling of 930 wells to date. This is a historic achievement for the Company and the country in terms of increasing production capacity and entering the field of Heavy Oil production. The Heavy Oil project was delivered in November of 2020, and contractual matters with KOC's partner in this regard are currently being finalized.

## 2. Drilling and Workovers (Excluding Light Oil)

The total number of wells that were drilled specifically for the production of oil (excluding Light Oil) included 418 new wells. In addition, 1,158 workovers were completed for the purpose of oil well maintenance.

Classification of Wells	Number of Wells Drilled
Cretaceous Development Wells	345
Jurassic Development Wells	15
Heavy Oil Development Wells	48
Exploratory Wells	10
<b>Total</b>	<b>418</b>



# 2<sup>nd</sup> Strategic Objective

Achieve Sustainable Non-Associated Gas Production





## 1. Production Capacity of Associated Gas and Non-Associated Gas

KOC is making every effort to achieve its strategic goal of sustainable Non-Associated Gas Production by 2040. In this regard, the total daily production of Associated Gas and Non-Associated Gas for the 2020/2021 fiscal year was 1.726 Billion SCFD, while production of Non-Associated Gas reached 541 MMSCFD compared to last year's figure of 490 MMSCFD. This increase was the result of several factors, the most important of which was an improvement related to shut-down procedures at facilities for maintenance operations. Improvements in shut-down procedures resulted in more time available for production operations and an overall improvement in the operations which take place at various KOC facilities. As a result, this has led to an increase in production capacity. It has also led to an increase in the number of operations that can take place which aim to improve the performance of oil wells, leading to increased rates of production.

## 2. Drilling and Workover of Jurassic Reservoirs (Non-Associated Gas)

Over the course of the past fiscal year, KOC drilled 27 deep wells which helped the Company reach its Non-Associated Gas production targets. In addition, the Company completed 27 workover operations to maintain production from Non-Associated Gas wells.

Classification of Wells	Number of Wells Drilled
Deep Developmental Wells (Jurassic)	23
Deep Exploratory Wells (Jurassic)	4
<b>Total</b>	<b>27</b>





# 3<sup>rd</sup> Strategic Objective

Replace Reserves to Sustain Production





## 1. Reservoir Assessment Studies

Kuwait Oil Company continues to work on improving production rates at the lowest possible cost by adopting the latest and most effective working methods and technologies. In this context, the Company has started work on a multilateral drilling project which helps protect surface areas, in addition to raising the level of production.

Multilateral Drilling Technology is one of the most complex challenges in the oil sector. The utilization of this technology began in 2018 after directives were issued by KOC's senior officials to develop areas in North Kuwait, with a particular emphasis on the Sabriya and Rawdatain fields. These fields were selected for several reasons, the most important of which is that the two fields are the largest in North Kuwait in terms of production capabilities. More than 2,500 wells were drilled, in addition to the construction of the existing infrastructure, which led to congestion on the surface area of the two fields and a lack of sufficient space to drill new wells and construct additional facilities. Therefore, new work was initiated in order to discover methods which aim to help provide new surface areas in addition to raising production levels.

Multilateral Drilling Technology utilizes a multi-branch horizontal well drilling technique (the mother well + multiple branches) which allows for the use of a surface area that is sufficient to drill several wells instead of drilling one well, with all branches in the same layer or different layers. Five teams from Reservoir Studies, Fields Development, and Well Surveillance are participating in this project.

## 2. Seismic Survey Operations

Seismic surveys are one of the most essential tools for KOC's onshore and offshore oil and gas exploration operations. In December of 2020, KOC succeeded in applying microseismic technology at two wells located in the Bahra Field in North Kuwait for the first time in the Company's history. This achievement was successful thanks to the cooperation which exists between the Field Development Group and Reservoir Studies Group in North Kuwait. Preliminary results indicate the extent of the success of this application and its effectiveness in improving and developing the fracturing process in a way that helps raise KOC's levels of production. This technology is considered by many in the industry as one of the most successful alternative solutions which can address the challenge of improving production in the Al-Mawdud layer.

The success of this experiment has paved the way for the same methodology to be utilized in areas with similar geological characteristics in the Sabriya Field.

### 3. Offshore Exploratory Drilling Activities

KOC signed the contract for Offshore Drilling and Exploration of Oil and Gas in Kuwait's Territorial Waters during 2019, with a major global provider of oil services. This is considered one of the most important projects being implemented under KOC's 2040 Strategy.

As per the contract, and in the first stage, KOC would drill six Jurassic and Cretaceous exploration wells through offshore drilling towers, including support-drilling services and management logistics services for different ports and boats for personnel and materials transport.

The first phase of the project has a lead-time of three years; with the preparation and processing period of one year for the first drilling tower, then a year and a half for the second. With this project, the State of Kuwait will enter a new era in oil and gas production.

After signing the contract, several meetings were organized, to coordinate and discuss the respective responsibilities for facilitating offshore drilling, and to designate the roles to be carried out by everyone involved, in cooperation with a major global oil service provider.

In addition to its track record of achievements in global organizations, the State of Kuwait has now exceeded itself by being elected as a member to the United Nations Council of International Maritime Organization for a two-year term beginning in December 2019.

### 4. Onshore Exploratory Drilling Activities

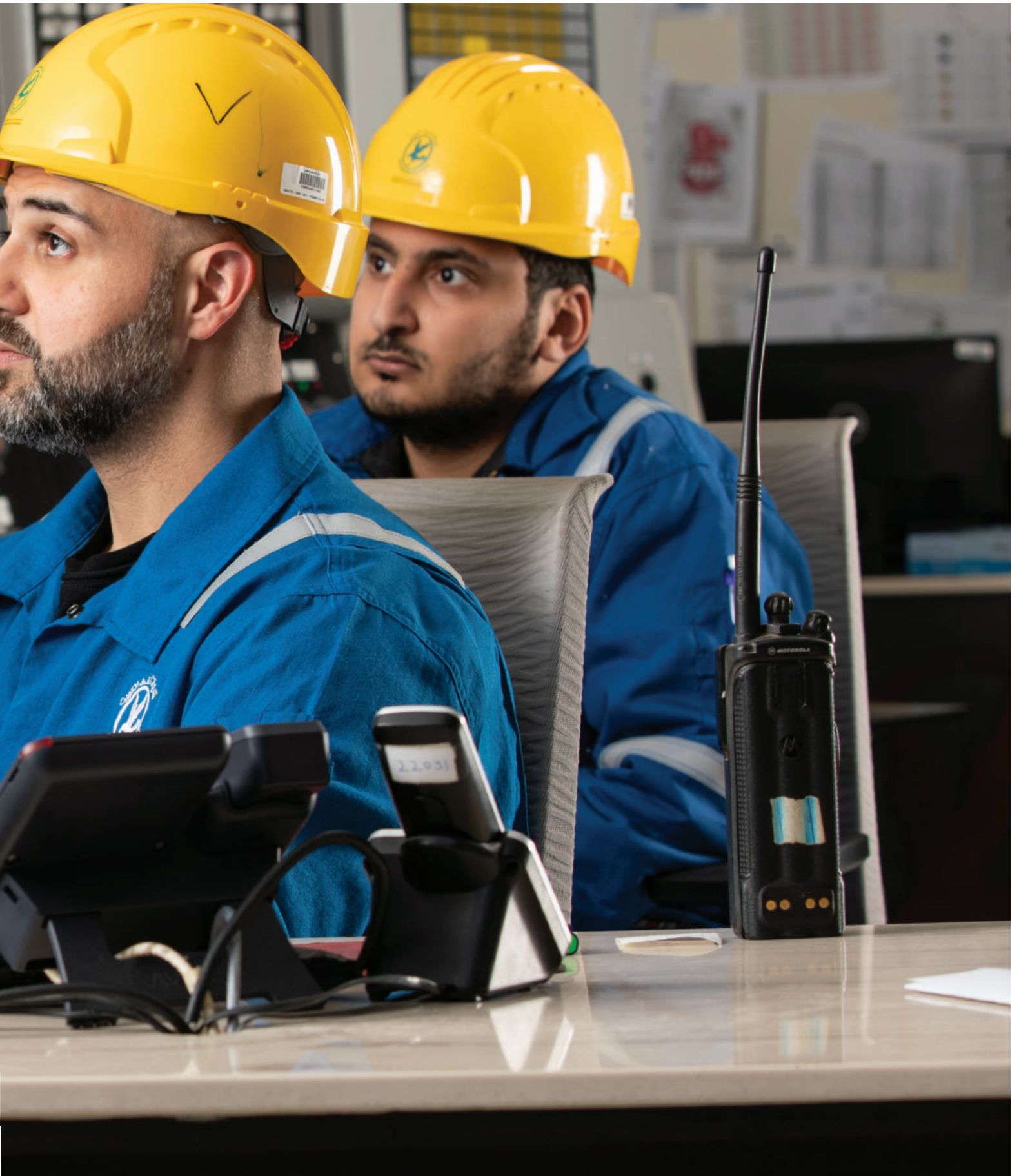
As previously indicated in the Drilling Operations and Workover Wells table, many exploratory drilling operations were completed during the 2020/2021 fiscal year. Company officials expect these operations to assist in the process of achieving KOC's strategic goals as they relate to adding reserves and increasing production. These discoveries include the following:

- **Jurassic Layer**
  - Discovery in Lower Marrat in Kahlolah Field (KA-07), with first oil results of 33 API.
  - Discovery in Najmah/Sargelu formation in Kabd Field, with proved oil results of 46 API.



# 4<sup>th</sup> Strategic Objective

Strive for World-Class Operational Excellence



## Safety, Security and Environment

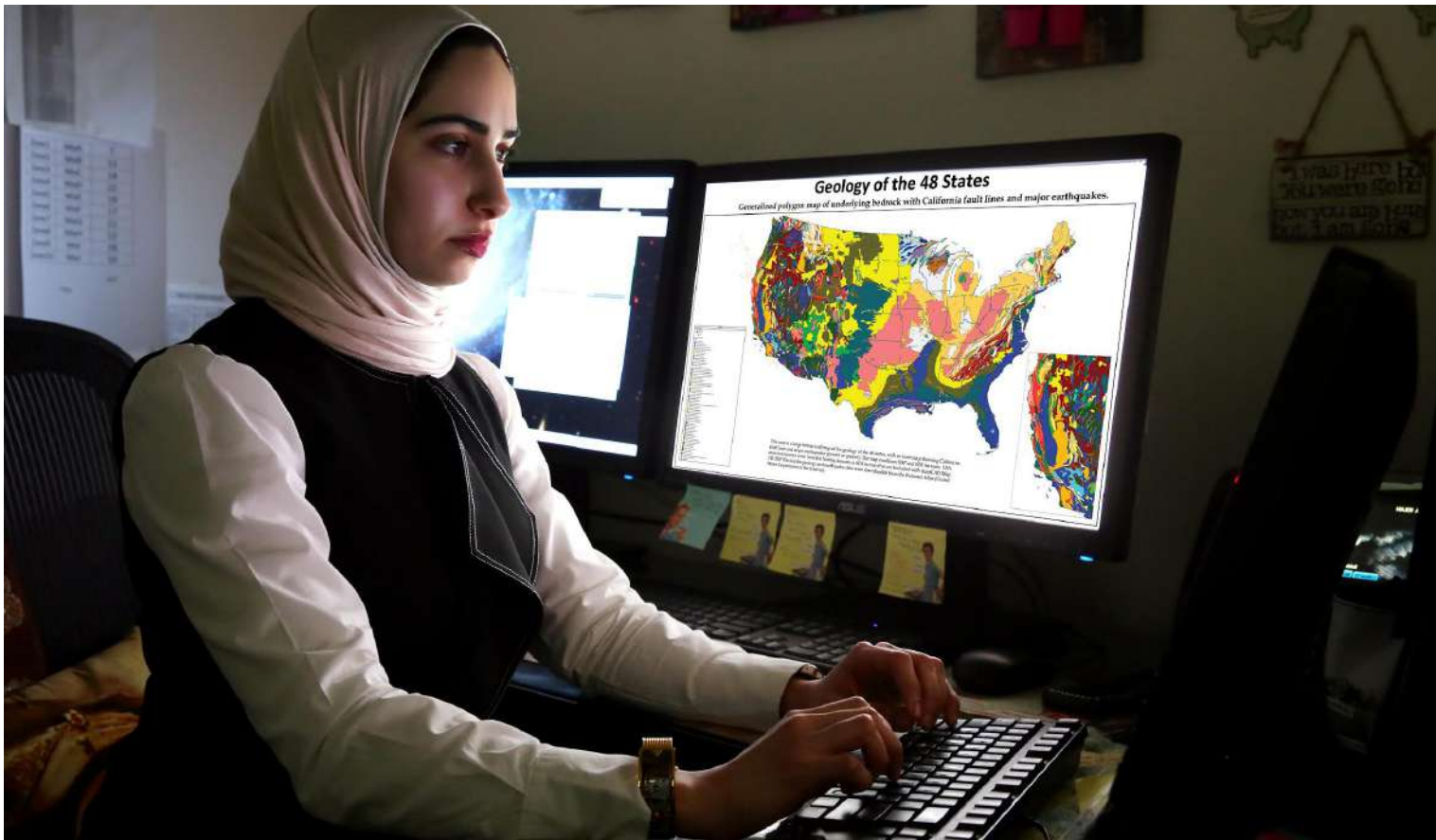
One of KOC's top priorities is to achieve maximum levels of Health, Safety, Security, and Environmental protection. Ensuring the health of employees and protecting Kuwait's natural ecosystem remains a critical component of the Company's overall strategy. Therefore, KOC's efforts to improve matters related to health and the environment remain some of the most important goals of the Company's 2040 strategic objectives.

### 1. Health

KOC is committed to providing the best possible health services to employees and patients at both Ahmadi Hospital and the Ahmadi Specialist Hospital. In November of 2020, Ahmadi Hospital launched a virtual consultation service that allows patients to communicate with their doctor without the need to be physically present at the hospital, which effectively eliminates the risk of spreading contagious viruses, thus protecting patients and hospital staff.

As part of its commitment to provide the best medical services to oil sector employees and their families, Ahmadi Hospital officially launched a new "Endoscopic Ultrasound" service within the Digestive System Unit. Endoscopic ultrasounds play a major role in speeding up the diagnosis and medical guidance for patients with gastrointestinal and pancreatic tumors, thereby providing them with more time to fight their disease. In addition, the endoscopic ultrasound technique helps physicians better direct appropriate treatments for the patient, which can be surgical, chemical, radiological, or merely periodic follow-ups, which allows doctors to establish appropriate health plans for individual patients.





## 2. Safety and Security

In terms of safety, KOC continues to focus on reducing the Company's Lost Time Injury Frequency Rate (LTIFR), which reached 0.013 accidents per 200,000 working hours over the last fiscal year, against the yearly tolerance of 0.025 accidents per 200,000 working hours. KOC regrets that it recorded two contractor deaths during the 2020/2021 fiscal year in June of 2020, and the Company is working to take necessary measures to prevent similar accidents in the future.

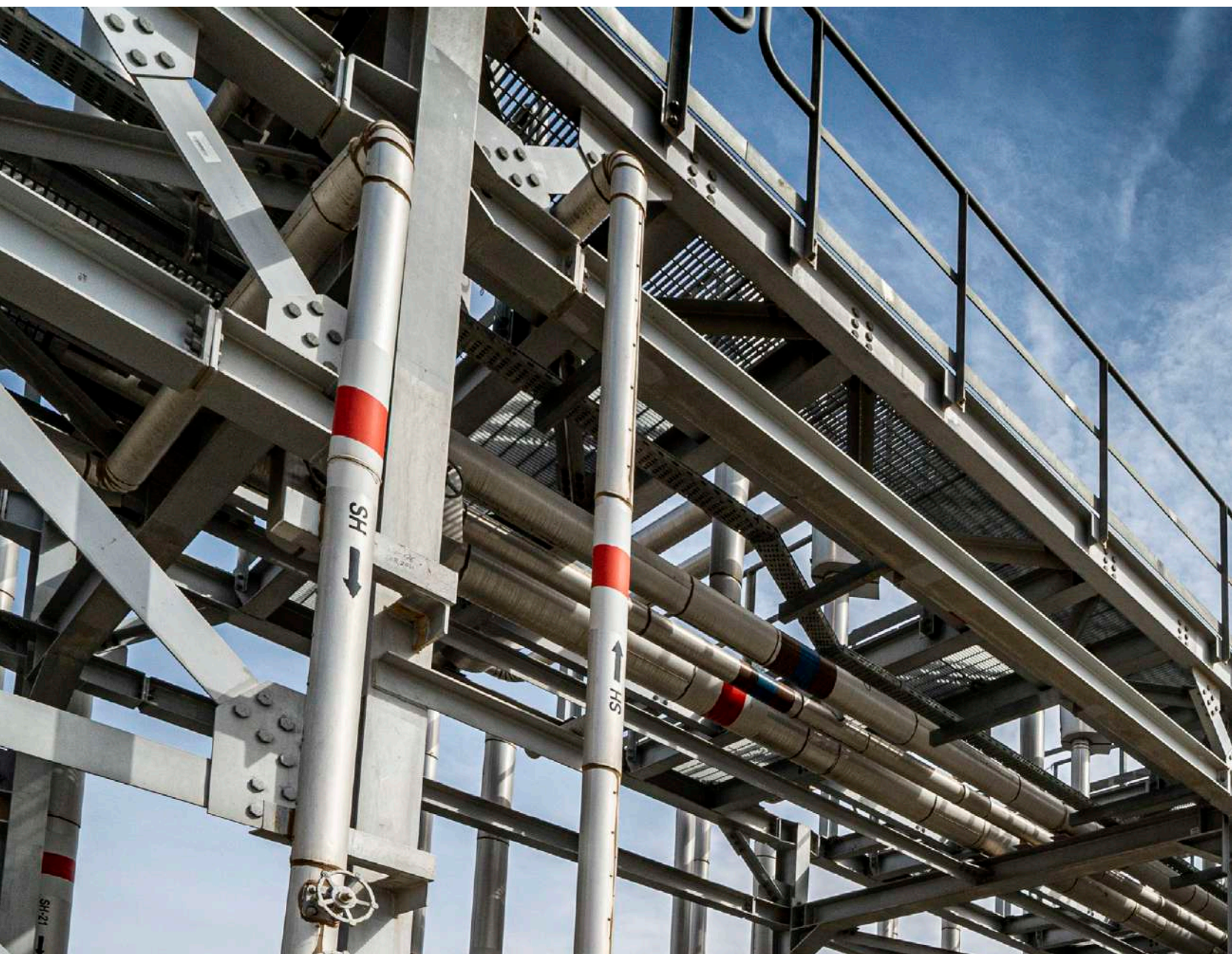
As matters related to Cybersecurity become increasingly important to the overall security of the Company, KOC recently organized its 3rd Annual Gartner Cybersecurity Event, which was held under the patronage of the Planning & Finance Directorate DCEO. The event was attended by several senior officials from Kuwait's oil and gas sector, as well as a selection of local, regional and international experts. The Information Security Group organized the event through virtual channels, which successfully brought together a wide selection of local, regional, and international specialists. Despite the challenges associated with holding a virtual conference, the Company succeeded in devoting the appropriate time and effort to this very important topic, which confirms KOC's commitment to its vital societal role of fostering knowledge and technology transfer among employees and the public for the progress and prosperity of the State of Kuwait.

### 3. Environment

As part of KOC's ongoing environmental protection efforts, the Company recently added a new achievement to its long series of environmental accomplishments. Specifically, this achievement relates to elevating KOC to a top position among the world's oil-producing nations by greatly reducing the amount of gas that is flared during the oil production process. The latest report issued by the World Bank, which is part of a series of follow-up reports on the progress of member states to reduce gas flaring, showed that the State of Kuwait, represented by KOC, has continued to decrease gas flaring to one of the lowest rates in the world. According to Company data and reports, KOC's gas flaring rate has reached less than 1%, which is a direct result of the tireless efforts of Company employees to overcome the many technical challenges which needed to be conquered to reach this significant accomplishment.

Meanwhile, KOC's Innovation & Technology Group recently completed the "Wind Resources Assessment & Feasibility Study for Wind Power Generation for Oil Fields in North Kuwait" project. The aim of this project is to support KOC's plan to utilize experimental wind turbines in Ratqa Field, which will do much in the way of reducing KOC's dependence on fuel for field operations.





# 5<sup>th</sup> Strategic Objective

Optimize Portfolio Management



The way forward for KOC includes the development of several reservoirs that are difficult and costly to exploit. Some of the Company's future resources will be derived from Unconventional, EOR, Heavy Oil, Offshore, and New Oil Zones which require the implementation of new technologies and comprehensive strategic, business, and economic assessments. These opportunities require the development of standardized production forecasting and cost allocation tools to enable economic evaluation and portfolio analysis which prioritizes and optimizes KOC's hydrocarbon resources. In addition, the Company must identify high-cost operations that can be further developed through cost optimization methodologies and strategies.

The newly deployed Corporate Portfolio Management System Project is a required initiative of KOC's 2040 Strategy which aims to prioritize the selection of the best future investment opportunities that can potentially develop the Company's assets and achieve the largest profitable returns on investment. This requires further analysis to coordinate the work mechanisms that are currently in place or being developed to establish workflow systems and controls which will ensure the implementation of the initiative.

In this regard, KOC recently initiated Phase II of the Corporate Portfolio Management System (CPMS), where all KOC Asset Action Plans were converted to be "Opportunity-Focused for All Assets." In addition, the CPMS Guidelines and design were further refined in terms of processes, tools, and templates. The CAPEX and OPEX models were enhanced and automated, and reporting dashboards were developed.







# 6<sup>th</sup> Strategic Objective

Facilitate Technology & Capability Transfer





## 1. Technologies

For many years, KOC has been a proponent and early-adopter of new and advanced technologies which have the potential to increase production in cost-effective and environmentally-friendly ways. Part of the Company's 2040 strategic objectives call for the adoption of new forms of technology throughout KOC's areas of operation; more importantly, however, is the need to facilitate the proper understanding and usage of these technologies through the exchange of information and best practices. Some of KOC's newly-adopted technologies and knowledge-sharing activities are detailed in the paragraphs which follow.

In December of 2020, Kuwait Oil Company carried out the first successful operation of the "Zeitecs" system for retrieving and re-installing submersible pumps without the need for a drilling tower. This achievement was accomplished as a cooperative effort between the East Kuwait Fields Development Group and the Well Inspection Teams in South & West Kuwait, which oversaw the installation of a submersible pump in a well (Maqwa 361) with the "Zeitecs" system without using a drilling tower. The successful initiative demonstrated the possibility of applying this technology on a larger scale throughout KOC oil fields, as this achievement has a significant positive impact on the progress of operations, especially because a large proportion of wells depend on submersible pumps in the production of oil. The benefits of this new technology include saving time, as the wells return to production within a week instead of months in the case of using drilling rigs, thus saving costs.

Meanwhile, the North Kuwait Directorate successfully implemented the utilization of two new technologies in January of 2021 which make greater use of electric submersible pumps which enhance oil production. These technologies, which are being utilized for the first time at KOC and in the Middle East, relate to the application of the first product of the parallel and synchronous dual injectors. This technology has been successfully implemented at two wells in Sabriya Field, contributing to an increase in oil production and improving cost efficiencies, leading to the successful achievement of the goal of strategic production in North Kuwait. This achievement was successful because of the close cooperation which exists between the Reservoir Studies Team (North Kuwait), the Sabriya Fields Development Team, the Production Operations Team (Sabra - Bahra), the Water Handling Group (North Kuwait), and the Artificial Lift Team (North Kuwait).

In a separate development, KOC is proud to confirm that the Company was the recipient of the Distinguished Achievement Award in the Geographic Information Systems (SAG) Awards for the year 2020, which was announced during the annual GIS Users Conference.

The award recognized KOC's integrated mapping system and spatial applications, and is based on a set of technical standards that include the modern capabilities of technologies and computer systems used in the system, in addition to the accuracy and quality of implementation, the efficiency of the system, and the extent to which it meets the operational requirements of the organization as a whole.

## 2. Human Skills and Capabilities

KOC strives to enhance the skills and unlock the potential of its employees by providing them with an attractive work environment, and the Company is constantly working toward the improvement of all aspects related to daily work in order to provide employees with the highest levels of job satisfaction. KOC also seeks to recruit Kuwaitis as part of its national employment mandate. The most important achievements made in this regard over the 2020/2021 fiscal year follow.

### Recruitment and Kuwaitization

Over the past year, and despite the challenges associated with the COVID-19 global pandemic, KOC made considerable efforts to facilitate the recruitment of Kuwaiti nationals. In total, 92 Kuwaitis were recruited, including 34 recent graduates and 58 nationals with previous work experience.

At the end of the 2020/2021 fiscal year, KOC's official employment figure totaled 11,381 workers, including those from the Medical and Nursing staff. Accordingly, the Kuwaitization rate reached 83.8% when the total figure includes Medical and Nursing staff. The Kuwaitization figure without counting Medical and Nursing staff reached 90.8%.

### Training and Development

One of KOC's top priorities is the provision of valuable training and development opportunities for Company employees. This includes the development of initiatives which oversee local and international training programs which offer specialized technical courses that aim to enrich and develop the scientific, technical, and research capabilities of KOC employees in order to improve the productive capabilities of the Company.

Over the past year, the Training & Career Development Group was focused on resuming training activities which had been placed on hold because of the COVID-19 global pandemic. As a renewed effort to resume training began in earnest, the Training & Career Development Group aimed to reformulate a training policy which adhered to the health precautions which are currently in place throughout the Company. In order to accomplish this task, KOC utilized new forms of training, which include virtual meetings and distance learning, in order to protect the health of employees while also serving to expand and build the capabilities of staff through beneficial training programs.

In light of the business and training issues created by the pandemic, the Training & Career Development Group has introduced and commenced the implementation of its strategy with the aim of adapting to the current situation through the introduction of the following strategic initiatives:

- Fostering Agile Learning - Taking a "Learner-Centric" Approach
- Aligning Training Delivery with Learner Preferences
- Leveraging Multiple Learning Tools
- Targeting Soft Skills Training
- Emphasizing On-the-Job-Training

Important achievements registered by the Training & Career Development Group during the 2020/2021 fiscal year include the following:

### **Conclusion of the Executive Coaching Initiative in Collaboration with “Mashar”**

- Number of Participants (DCEOs/Managers/Team Leaders): 29
- Number of Sessions: 59
- Number of Hours: 72

### **Launching of the Harvard Manage Mentor Spark (HMM Spark) Initiative**

This initiative targeted Harvard Program attendees and KOC Fast Trackers. The website provides access to the latest management and leadership content from Harvard Business Publishing in order to develop the skills of KOC employees in areas that are of interest to them.

### **KOC’s 1st Mentoring Forum**

The Training & Career Development Group organized KOC’s 1st Mentoring Forum, which was held on December 16th, 2020. The event raised awareness about the importance of quality and structured mentoring at KOC as it relates to developing a mentoring culture, with the aim of this culture spreading throughout the Company. The forum was comprised of several workshops which covered mentoring topics which added to KOC’s collective body of knowledge.

### **Fast Track Program**

Under patronage of the KOC CEO, the Talent Management Team organized the Fast Track Program in cooperation with Harvard Business School. In this regard, an online event was organized by the Team and attended by the CEO, senior KOC officials, and KOC Fast Trackers on December 24th, 2020. The Fast Track Program aims to cultivate the skills of high-achieving KOC Senior level employees that attended a two-year program. It includes various learning opportunities which aim to prepare the Company’s next generation of leaders.

### **Virtual CDU Forum 2020/2021**

The Training & Career Development Group conducted the 2020/2021 Virtual CDU Forum on September 17th, 2020. The event was attended by 89 participants. The objective of the Virtual CDU Forum was to enable networking and knowledge sharing activities among CDU Members and to improve stakeholder commitments.

### **The Nursing MOU Agreement**

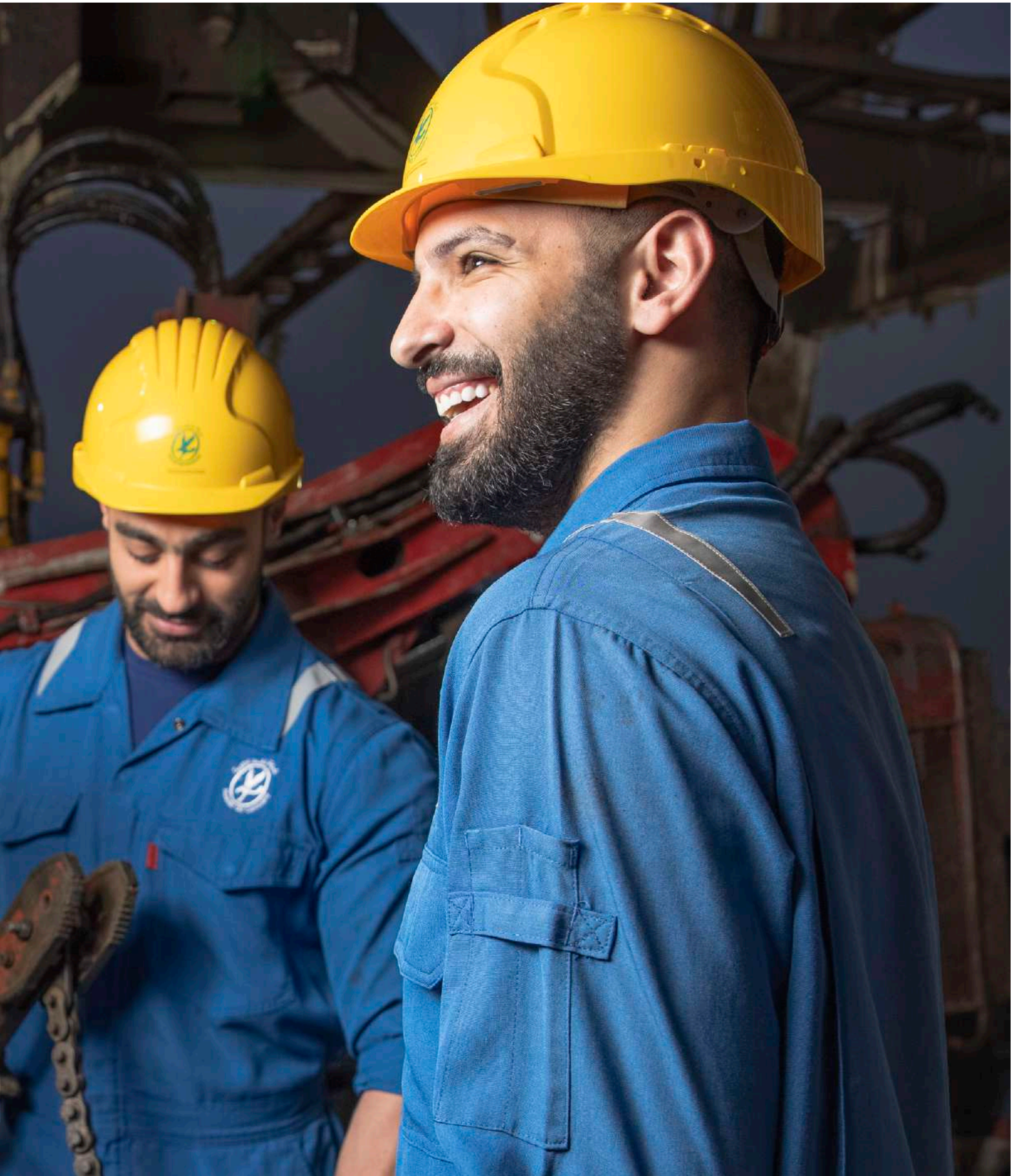
Under the 2015 agreement between KOC and PAAET, 16 fresh graduate nurses successfully completed the Nursing Program and were hired by KOC. The nursing MOU agreement between KOC and PAAET was renewed, and KOC signed a new agreement on January 24th, 2021 for an additional five years in collaboration with the Talent Management Team.





# 7<sup>th</sup> Strategic Objective

Actively Manage Stakeholders to Satisfy Kuwait's Energy Demands Efficiently





## 1. Actively Manage Stakeholders

KOC continuously strives for excellence and advancement in its performance in order realize the objectives of the Company's 2040 strategic goals. The following information details the most important activities and achievements in this regard:

- As part of an effort to collaborate with Kuwait's local educational institutions, KOC recently signed a Memorandum of Understanding (MoU) with the College of Technological Studies from the Public Authority for Applied Education & Training (PAAET). As part of the agreement, KOC will provide the college with a training platform that will be utilized to facilitate the transfer of the Company's collective knowledge and experience to the students. The memorandum states that the Company will provide the training platform to the college on a renewable period of one year. Several specialists from various KOC Groups which specialize in training contributed to the establishment of the platform, including the development of its training programs.
- Meanwhile, KOC successfully implemented a joint aerial exercise in cooperation with Kuwait Oil Tankers Company (KOTC) near Kubbar Island. The exercise was held over two days and falls under the framework of cooperation and joint support between various State agencies. The exercise focused on air evacuation operations for critical cases aboard ships and coordination between operation rooms during emergencies. The exercise was organized in cooperation between the Port Operations Team of the Marine Operations Group and the Organization Resilience Team from the Fire Group, in addition to KOTC ships.

## 2. Contribute to Enterprise and State

- As part of an effort to assist the State of Kuwait's fight against COVID-19, Kuwait Oil Company utilized its resources to design and install guidance materials for the Vaccination Center at the Mishref International Fairgrounds. The Public Relations Team also oversaw the provision of materials to 15 other vaccination centers in government clinics throughout Kuwait's governorates. This initiative was part of an overall KOC Corporate Social Responsibility effort to facilitate and speed up the vaccination process and assist employees from the Ministry of Health. The materials included printed health information, hanging panels, the installation of aluminum panels, and the printing and installation of instructional floor panels.
- A campaign to plant trees and beautify the country was launched throughout the City of Ahmadi. The two-month campaign, which was carried out by the Road & Support Team, included the development of the central area of Ahmadi, where open spaces will be converted into public parks. The campaign also covers new developments that include pedestrian paths and a number of green spaces over an expected area of 20,000 square meters. The campaign will oversee the planting of 3,000 trees throughout several areas of Ahmadi.
- In December of 2020, KOC's Ahmadi Projects Group constructed three watersheds which serve as drainage basins which protect against floods. The drainage basins were constructed in Northeast Ahmadi and South Sabahiya with a capacity of more than 1.5 million cubic meters. They were constructed as part of a necessary solution which was required to deal with the effects of heavy rains which flow down from the Ahmadi plateau toward residential areas (Fahaheel, South Sabahiya, Mangaf). The construction of these drainage basins will do much in the way of protecting residential areas against flood damage.
- As part of Kuwait Oil Company's effort to combat the COVID-19 global pandemic, the Medical Group at Ahmadi Hospital, in cooperation with the Ministry of Health, launched a vaccination program for KOC employees and those who work in Kuwait's oil sector. The aim of this program is to facilitate the process of ensuring the majority of Kuwait's population is vaccinated against COVID-19.
- In a related effort, KOC designated an oil dormitory in Ratqa Field in North Kuwait as a quarantine facility with a capacity of 911 beds. The facility was delivered to the Ministry of Health in order to host citizens returning from travel abroad. The facility includes a wide range of features and provisions which ensure those quarantined at the facility are provided with essential services to protect their health and wellbeing.



## KOC's Aspirations to Meet Strategic Objectives for 2021/2022

- KOC aims to continue building its production capacity of crude oil in accordance with the Company's defined strategic directions. KOC also looks forward to continuing the implementation of projects to increase production, such as Gathering Center 31 in North Kuwait. The Company also plans to commence the construction work of Gathering Center 32 in South & East Kuwait to facilitate the production of sour crude oil from the Burgan Minagish Field, which is expected to be completed during the 2020/2021 fiscal year.
- The Company plans to implement an intensive drilling program to develop newly explored oil reservoirs.
- KOC aims to renew its focus on water treatment, which includes handling and injection operations for reservoirs to increase production capacity.
- In terms of gas production, KOC aims to sustain and increase Non-Associated Gas Production from 500 Million to 1 Billion Cubic Feet Per Day. This will be achieved by improving the productivity of the three Jurassic Production Facilities, in addition to continuing development of the fourth and fifth facilities by the end of the current fiscal year.
- KOC will begin implementing the Offshore Project as part of an effort to build up the Company's production capacity.
- The Company will continue its Reserves Replacement program to fully compensate produced quantities of oil and gas by adding new oil reserves to ensure the sustainability of production.
- KOC will supply the Al-Zour Refinery project with the required quantities of oil when it is operational.
- The Company will implement initiatives to reduce expenditures and create better efficiencies for capital and operating budgets.
- KOC will improve and develop production methods by using the best and most advanced forms of technology in order to develop the Company's capabilities in the use of EOR technology through the implementation of pilot projects.
- KOC will continue its efforts to reduce Gas Flaring to 1% or less.
- KOC will supply the Al-Zour Refinery project with the required quantities of oil when it is operational.
- The Company will implement initiatives to reduce expenditures and create better efficiencies for capital and operating budgets.
- KOC will improve and develop production methods by using the best and most advanced forms of technology in order to develop the Company's capabilities in the use of EOR technology through the implementation of pilot projects.
- KOC will continue its efforts to reduce Gas Flaring to 1% or less.





# Financial Report

Financial statements and independent auditor's report  
for the year ending March 31, 2021



# CONTENTS





KOC

Independent auditor's report	54
Statement of financial position	57
Statement of profit or loss and other comprehensive income	58
Statement of changes in equity	59
Statement of cash flows	60
Notes to the financial statements	61



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## Independent auditor's report

The Shareholders  
Kuwait Oil Company K.S.C.  
State of Kuwait

### Opinion

We have audited the financial statements of Kuwait Oil Company K.S.C. ("the Company"), which comprise the statement of financial position as at 31 March 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

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

### Other Information

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

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

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

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



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

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

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

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

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

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

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

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

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



## Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the financial statements include the information required by the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Memorandum and Articles of Association, as amended. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the Board of Directors' report agrees with the books of accounts of the Company. We have not become aware of any violations of the provisions of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, or of the Company's Memorandum and Articles of Association, as amended, during the year ended 31 March 2021 that might have had a material effect on the business of the Company or on its financial position.

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


Kuwait: 19 May 2021


**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Statement of financial position**  
*as at 31 March 2021*

	Note	2021 KD'000	2020 KD'000
<b>Assets</b>			
Property, plant and equipment:			
Crude oil and general purpose		5,669,674	5,533,993
Gas collection and transmission		1,653,148	1,045,332
Drilling and exploration		95,108	95,781
Export operations		15,466	13,044
Mobile plant		7,019	4,833
Capital work in progress		7,981,186	7,779,169
Total property, plant and equipment	5	15,421,601	14,472,152
Right-of-use asset	6	784,845	853,965
Intangible assets	7	74,980	78,522
Construction inventories	8	288,455	224,434
Receivable from Parent Company	10	15,094	15,094
<b>Non-current assets</b>		<u>16,584,975</u>	<u>15,644,167</u>
			+..?
Consumable inventories	8	118,265	114,163
Advances and other receivables	9	217,668	342,265
Amounts due from group companies	16 (b)	47,764	51,756
Cash and cash equivalents	11	12,967	8,735
<b>Current assets</b>		<u>396,664</u>	<u>516,919</u>
<b>Total assets</b>		<u>16,981,639</u>	<u>16,161,086</u>
<b>Equity</b>			
Share capital – authorized, issued and fully paid shares of KD 1 each	12	30,188	30,188
Shareholder's current account	12	2,114,791	2,114,791
Statutory reserve	12	15,094	15,094
<b>Total equity</b>		<u>2,160,073</u>	<u>2,160,073</u>
<b>Liabilities</b>			
Due to Parent Company, net	10	12,050,480	10,832,001
Post-employment benefits	13	692,267	667,309
Lease liabilities	6	648,807	644,756
<b>Non-current liabilities</b>		<u>13,391,554</u>	<u>12,144,066</u>
Accounts payable and other liabilities	14	1,124,929	1,124,932
Lease liabilities	6	289,685	335,529
Dividend payable	15	15,398	396,486
<b>Current liabilities</b>		<u>1,430,012</u>	<u>1,856,947</u>
<b>Total liabilities</b>		<u>14,821,566</u>	<u>14,001,013</u>
<b>Total equity and liabilities</b>		<u>16,981,639</u>	<u>16,161,086</u>

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

  
Sanad Hemaidi Al-Sanad  
Chairman

  
Emad Mahmoud Sultan  
Chief Executive Officer

**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Statement of profit or loss and other comprehensive income**  
*for the year ended 31 March 2021*

	Note	2021 KD'000	2020 KD'000
<b>Revenue:</b>			
Revenue (net of royalty, levy and marketing fees)	17	<u>1,986,400</u>	<u>3,290,211</u>
<b>Operating cost (cost of production):</b>			
Contract services		(658,713)	(625,192)
Employee cost		(704,032)	(718,829)
Material cost		(68,872)	(76,851)
Depreciation, amortization and write off	5,6&7	<u>(561,902)</u>	<u>(507,721)</u>
Total operating cost	18	<u>(1,993,519)</u>	<u>(1,928,593)</u>
Other operating income	19	33,806	32,919
Recoverable costs	20	<u>139,733</u>	<u>138,562</u>
Cost of production		<u>(1,819,980)</u>	<u>(1,757,112)</u>
<b>Gross profit</b>		166,420	1,533,099
General and administrative expenses	21	<u>(103,192)</u>	<u>(110,013)</u>
Net operating profit		63,228	1,423,086
Interest expense	6	(8,205)	(7,187)
Interest income		13	164
Directors' remuneration	22	<u>(42)</u>	<u>(42)</u>
Net profit before contribution to shareholder		54,994	1,416,021
Contribution to the shareholder	23	<u>(39,596)</u>	<u>(1,019,535)</u>
<b>Net profit and total comprehensive income for the year (transferable to Parent Company)</b>	15	<u><u>15,398</u></u>	<u><u>396,486</u></u>

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

**Kuwait Oil Company K.S.C.  
State of Kuwait**

**Statement of changes in equity  
for the year ended 31 March 2021**

	Share capital KD'000	Shareholder's current account KD'000	Statutory reserve KD'000	Retained earnings KD'000	Total KD'000
<b>Balance at 1 April 2019</b>	30,188	2,114,791	15,094	-	2,160,073
Net profit	-	-	-	396,486	396,486
Total comprehensive income for the year	-	-	-	396,486	396,486
<b>Transactions with owner of the Company, recognized directly in the equity</b>					
Distribution to owner of the Company (note 15)	-	-	-	(396,486)	(396,486)
<b>Balance at 31 March 2020</b>	<u>30,188</u>	<u>2,114,791</u>	<u>15,094</u>	<u>-</u>	<u>2,160,073</u>
<b>Balance at 1 April 2020</b>	30,188	2,114,791	15,094	-	2,160,073
Net profit	-	-	-	15,398	15,398
Total comprehensive income for the year	-	-	-	15,398	15,398
<b>Transactions with owner of the Company, recognized directly in the equity</b>					
Distribution to owner of the Company (note 15)	-	-	-	(15,398)	(15,398)
<b>Balance at 31 March 2021</b>	<u>30,188</u>	<u>2,114,791</u>	<u>15,094</u>	<u>-</u>	<u>2,160,073</u>

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

**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Statement of cash flows**  
*for the year ended 31 March 2021*

	Note	2021 KD'000	2020 KD'000
<b>Cash flows from operating activities</b>			
Net profit		15,398	396,486
<i>Adjustments for:</i>			
Abortive drilling expenditure	18	2,515	1,301
Interest expense	6	8,205	7,187
Provision for obsolete and slow moving inventories		4,555	1,183
Depreciation, amortization and write off	5,6&7	561,902	507,721
Contribution to the shareholder	10	39,596	1,019,535
Provision for post employment benefits	13	56,821	86,578
		<u>688,992</u>	<u>2,019,991</u>
<i>Changes in:</i>			
- consumable inventories		(8,657)	5,349
- advances and other receivables		124,597	197,063
- receivable from the Parent Company	10	(1,986,400)	(3,290,211)
- other movements in the Parent Company balances	10	(13,014)	5,668
- accounts with group companies		3,992	27,315
- accounts payable and other liabilities		(3)	(128,083)
Cash used in operations		<u>(1,190,493)</u>	<u>(1,162,908)</u>
Post employment benefits paid	13	<u>(31,863)</u>	<u>(35,700)</u>
<i>Net cash used in operating activities</i>		<u>(1,222,356)</u>	<u>(1,198,608)</u>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	5&6	(1,149,036)	(1,480,141)
Acquisition of intangible assets	7	(1,391)	-
Abortive drilling	18	(2,515)	(1,301)
Changes in construction inventories		<u>(64,021)</u>	<u>(53,350)</u>
<i>Net cash used in investing activities</i>		<u>(1,216,963)</u>	<u>(1,534,792)</u>
<b>Cash flows from financing activities</b>			
Payment of lease liabilities including interest	6	(338,260)	(252,257)
Funding from the Parent Company	10	<u>2,781,811</u>	<u>2,989,240</u>
<i>Net cash generated from financing activities</i>		<u>2,443,551</u>	<u>2,736,983</u>
Net change in cash and cash equivalents		4,232	3,583
Cash and cash equivalents at beginning of the year		<u>8,735</u>	<u>5,152</u>
<b>Cash and cash equivalents at end of the year</b>	11	<u><u>12,967</u></u>	<u><u>8,735</u></u>

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

**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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**1. Reporting entity**

Kuwait Oil Company K.S.C. (“the Company”) is a wholly owned subsidiary of Kuwait Petroleum Corporation (“the Parent Company” or “KPC”). The Parent Company is wholly owned by the Government of the State of Kuwait.

The Company is engaged in exploration, drilling, production and transportation of hydrocarbon resources within the State of Kuwait. The Company is also engaged in the storage of crude oil and its export. Hydrocarbon resources managed by the Company are the sovereign property of the State of Kuwait. Crude oil is extracted from reserves in Kuwait and, on the instructions of the Parent Company, is exported as blended crude or passed to Kuwait National Petroleum Company K.S.C. (“KNPC”) for further processing or to the Ministry of Electricity and Water for power generation. Gas produced is treated similarly. The sales and marketing of crude oil produced by the Company is undertaken by the Parent Company.

The Company owns no oil and gas reserves nor any oil and gas inventory other than those required for operations.

The Company also provides marine services to KNPC’s Mina Al-Ahmadi and Mina Abdulla refineries and the oil pier at Mina Al-Shuaiba. KNPC is charged for direct costs relating to these activities. The Company charges group companies for medical and other services provided to their employees.

Effective 1 April 2007, the Parent Company changed the reporting structure of the Company to become a profit center. Prior to 1 April 2007, the Company was reporting to the Parent Company as a cost center with its costs fully reimbursed by the Parent Company. Under these revised arrangements, the Company’s revenue is determined as the revenue from the sale of crude oil net of certain charges by the Parent Company (see policy on revenue recognition). In addition, 72% of the net profit is payable to the Parent Company as a contribution (Note 23).

The Company’s registered office is P.O. Box 9758, Ahmadi 61008, State of Kuwait.

These financial statements were approved and authorized for issue by the Board of Directors on 6 May 2021 and are subject to approval of the Shareholder at the annual general assembly.

**2. Basis of preparation**

a) Statement of compliance

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

b) Basis of measurement

These financial statements are prepared under the historical cost or amortized cost basis. The financial statements are prepared on a going concern basis. All funding requirements of the Company are met by the Parent Company.

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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c) Functional and presentation currency

These financial statements are presented in Kuwaiti Dinars rounded to the nearest thousand (KD “000”), which is the Company’s functional and presentation currency.

d) Changes in accounting policies

A number of amendments to standards and interpretations are effective for the Company’s annual period beginning on 1 April 2020 as below, but they did not have material effect on the Company’s financial statements.

- Amendments to IFRS 3: Definition of a Business;
- Adoption of profit rate benchmark reform (IBOR reform Phase 1);
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Conceptual Framework for Financial Reporting issued on 29 March 2018; and
- Amendments to IFRS 16 Covid019 Related Rent Concession.

**3. Significant accounting policies**

The Company has consistently applied the following accounting policies to all periods presented in these financial statements except the changes described in note 2 (d).

a) Property, plant and equipment

*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 capitalized 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.

*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*.

*Others*

Oil and gas properties and other property plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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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.

*Drilling, exploration and other assets under construction*

Assets in the course of construction are carried at cost, less any recognized impairment loss. Cost includes all capital costs in accordance with the Company'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 ready for use.

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

*Subsequent costs*

The cost of major repairs, overhaul and replacement of a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

*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 statement of profit or loss and other comprehensive income.

*Depreciation*

Depreciation is based on the cost of an asset less its residual value. 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 profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Drilling, exploration and other assets under construction 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 Petroleum Council, are as follows:

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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<u>Asset category</u>	<u>Depreciation rate</u>
<i>Oil and gas properties:</i>	
Plant and machinery	4%
Tankage, pipelines and jetties	4%
Wells and surveys	5%
Service plant	25%
Drilling plant	20%
<i>Other property and equipment:</i>	
Marine craft	8%
Buildings and roads	4%
Office furniture and equipment	10%
Lorries and trailers	20%
Motor cars	20%
Computers	10%

b) Intangible assets

Seismic survey costs and other related costs incurred on exploratory and development wells are identifiable non-monetary assets from which future economic benefits will flow and are accordingly recognized as an intangible asset. These costs are stated at cost less accumulated amortization and impairment losses and are amortized over 20 years on a straight line basis.

c) Inventories

Inventories are measured at cost after making allowance for any obsolete or slow moving items. Cost of inventories is based on weighted average cost principle. Cost includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition.

d) Recoverable costs

Recoverable costs represent costs incurred by the Company in providing services to or on behalf of related group companies. Recoverable costs are deducted from the Company's costs and shown separately in the statement of profit or loss and other comprehensive income. Recoverable costs are allocated to related group companies based on the actual cost basis and do not include any profit margin.

e) Provisions

A provision is recognised if, as a result of a past event, the Company 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 determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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f) Revenue recognition

*Revenue from exploration and extraction of crude oil and gas*

The Company recognizes the revenue, when it loads the crude oil on the designated vessel at the port of Kuwait for its Parent Company's customers and is determined as the price at which crude oil is sold by the Parent Company net of certain costs allocated by the Parent Company as follows:

- Royalty at 20% of gross revenues.
- Fiscal levy at 74% of gross revenues net of royalty, scaled according to production levels and crude oil price.
- Marketing fee at 2% of gross revenues.

The Company satisfies performance obligation of extracting, processing, storing and transporting crude oil or gas through pipelines to the Parent Company over time. However, the revenue is recognized at a point of time due to uncertainty involved in customer orders. Further the supply of gas is considered as a separate performance obligation because it is distinct from extraction, processing and supply of crude oil and the Company allocates the transaction price for services related to gas based on their stand-alone selling price and recognize revenue as it satisfies its performance obligations to the Parent Company with respect to supply of gas.

The Company recognizes all costs related to satisfied performance obligation (or partially satisfied performance obligations) as expenses in the statement of profit or loss and other comprehensive income. As result, the Company does not recognize deferred cost.

g) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

**As a lessee**

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right of use asset reflects that the Company will exercise a purchase option. In that case the right of use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- amounts expected to be payable under a residual value guarantee; and
- Payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

***Significant judgement in determining the lease term of contracts with renewal options***

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

***Short-term leases and leases of low-value assets***

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of IT equipment and employee cars that are considered of low value (i.e., below KD 20,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

The Company discounted lease payments using its incremental borrowing rate, the weighted-average rate applied is 3.5%.

h) Foreign currencies

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

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

i) Post-employment benefits

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

Employees are entitled to an end of service indemnity payable under the Kuwait Labor Law and the Company's by-laws based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. The expected costs of these benefits are accrued over the period of employment.

*Kuwaiti employees*

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

j) Financial instruments

*Classification and measurements of financial assets*

The Company determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cash flow characteristics of the financial assets.

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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*Business model assessment*

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

*Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)*

The Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Company considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money e.g. periodical reset of interest rates.

Contractual terms that introduce a more than de-minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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The Company classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost;
- Equity investments carried at fair value through other comprehensive income (FVOCI);
- Debt investments carried at fair value through other comprehensive income (FVOCI); and
- Financial assets carried at fair value through profit or loss (FVTPL).

*Financial assets carried at Amortised cost:*

A financial asset is carried at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows ; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Impairment is recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income.

*Reclassification of financial assets*

The Company does not reclassify its financial assets subsequent to their initial recognition other than in the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line.

The Company does not have instrument at FVOCI or FVTPL category as at the reporting date.

*Derecognition of financial assets*

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

*Impairment of financial assets*

The Company recognises loss allowances for expected credit (“ECL”) loss on financial measured at amortised cost. The Company applies a three stage approach to measure the expected credit loss as follows:

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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Stage 1: 12-month ECL

The Company measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date.

Stage 2: Lifetime ECL- not credit impaired

The Company measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime EC- credit impaired

The Company measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

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

*Determining the stage of impairment*

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

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

*Measurement of ECLs*

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

*Presentation of allowance for ECL in the statement of financial position*

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

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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

*Financial liabilities*

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in statement of profit or loss and other comprehensive income. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is also recognised in statement of profit or loss and other comprehensive income.

The Company's financial liabilities includes Due to Parent Company, Accounts payable and other liabilities and dividend payable.

*Derecognition of financial liabilities*

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in statement of profit or loss and other comprehensive income.

*Offsetting*

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

k) Impairment non-financial assets

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

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

1) Standards and interpretations issued but not yet effective

A number of new and amended standards, as set out below, are effective for annual periods of the Company beginning after 1 April 2020 whose earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these financial statements.

- Reference to Conceptual Framework (Amendments to IFRS 3);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities;
- Profit Rate Benchmark Reform (Phase 2); and
- IFRS 17 – Insurance contracts

The new standards and amendments are not expected to have a material impact on the Company's financial statements in the period of initial application.

**4. Use of estimates and judgments**

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is described below:

*Treatment of exploration costs as abortive*

Capitalized exploration drilling costs are considered abortive and expensed when commercially exploitable reserves of crude oil and gas are not found, if they are not subject to further appraisal activity or when temporarily abandoned with no plans for re-entry in the foreseeable future. In making judgments about whether to continue to capitalize exploration drilling costs, it is necessary to make judgments about the satisfaction of each of these conditions. If there is a change in one of these judgments in a subsequent period, then the related capitalized exploration drilling costs would be expensed in that period as abortive in the profit or loss.

*Impairment of non-financial assets*

At each reporting date, management assesses whether there is any indication that property, plant and equipment, intangible assets and inventories may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including industry conditions, technical innovation and market conditions.

*Measurement of ECL*

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

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

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

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

5. Property, plant and equipment

By function, excluding capital work in progress

31 March 2021	Net book value at 1 April 2020 KD'000	Additions/ (disposals and transfers), net KD'000	Net depreciation (additions and transfers) KD'000	Net book value at 31 March 2021 KD'000
Crude oil and general purpose	5,533,993	480,241	(344,560)	5,669,674
Gas collection and transmission	1,045,332	686,177	(78,361)	1,653,148
Drilling and exploration	95,781	7,242	(7,915)	95,108
Export operations	13,044	3,687	(1,265)	15,466
Mobile plant	4,833	2,379	(193)	7,019
<b>Total</b>	<b>6,692,983</b>	<b>1,179,726</b>	<b>(432,294)</b>	<b>7,440,415</b>
31 March 2020	Net book value at 1 April 2019 KD'000	Additions/ (disposals and transfers), net KD'000	Net depreciation (additions and transfers) KD'000	Net book value at 31 March 2020 KD'000
Crude oil and general purpose	5,604,568	276,790	(347,365)	5,533,993
Gas collection and transmission	875,533	230,976	(61,177)	1,045,332
Drilling and exploration	103,711	-	(7,930)	95,781
Export operations	6,944	6,748	(648)	13,044
Mobile plant	1,031	3,531	271	4,833
<b>Total</b>	<b>6,591,787</b>	<b>518,045</b>	<b>(416,849)</b>	<b>6,692,983</b>

**Kuwait Oil Company K.S.C.  
State of Kuwait**

**Notes to the financial statements  
for the year ended 31 March 2021**

**5. Property, plant and equipment (continued)**

By Category 31 March 2021	Oil and gas properties						Other property, plant and equipment				Capital work in progress Drilling, exploration and other assets under construction (KD'000)	Total (KD'000)
	Plant and Machinery (KD'000)	Tankage, pipelines and jetties (KD'000)	Wells and surveys (KD'000)	Service plant (KD'000)	Drilling plant (KD'000)	Marine craft (KD'000)	Building and roads (KD'000)	Office furniture and equipment (KD'000)	Lorries and trailers (KD'000)	Computers (KD'000)		
Cost												
At 1 April 2020	2,658,229	2,606,746	5,379,738	73,917	1,800	109,466	890,416	4,890	33,509	80,798	7,779,169	19,618,678
Additions to capital work in progress	-	-	-	-	-	-	-	-	-	-	1,394,626	1,394,626
Transfer from capital work in progress	271,727	24,595	856,944	2,222	-	3,148	29,952	19	720	3,282	(1,192,609)	-
Internal transfers	4,860	2,712	(5,573)	-	-	-	-	-	-	(1,999)	-	-
Write off	(5,021)	(54)	-	(340)	-	-	(683)	(26)	(507)	(6,254)	-	(12,885)
At 31 March 2021	2,929,795	2,633,999	6,231,109	75,799	1,800	112,614	919,685	4,883	33,722	75,827	7,981,186	21,000,419
Accumulated depreciation and impairment losses												
At 1 April 2020	1,378,458	1,053,040	2,240,045	58,667	1,607	45,915	292,148	3,012	31,758	41,876	-	5,146,526
Charge for the year	75,162	90,211	219,347	8,413	193	6,917	33,821	331	455	10,062	-	444,912
Internal transfers	858	226	976	-	-	-	-	-	-	(2,060)	-	-
Write off	(4,945)	(45)	-	(340)	-	-	(503)	(26)	(507)	(6,254)	-	(12,620)
At 31 March 2021	1,449,533	1,143,432	2,460,368	66,740	1,800	52,832	325,466	3,317	31,706	43,624	-	5,578,818
Carrying value												
At 31 March 2021	1,480,262	1,490,567	3,770,741	9,059	-	59,782	594,219	1,566	2,016	32,203	7,981,186	15,421,601

Exploration and evaluation costs included under drilling, exploration and other assets under construction amounted to KD 29,123 (31 March 2020: KD 40,092 thousands).

**Kuwait Oil Company K.S.C.  
State of Kuwait**

**Notes to the financial statements  
for the year ended 31 March 2021**

**5 Property, plant and equipment (continued)**

**By category (continued)**

By Category 31 March 2020	Oil and gas properties							Other property, plant and equipment				Capital work in progress Drilling, exploration and other assets under construction (KD'000)	Total (KD'000)
	Plant and machinery (KD'000)	Tankage, pipelines and jetties (KD'000)	Wells and surveys (KD'000)	Service plant (KD'000)	Drilling plant (KD'000)	Marine craft (KD'000)	Building and roads (KD'000)	Office furniture and equipment (KD'000)	Lorries and trailers (KD'000)	Computers (KD'000)			
Cost													
At 1 April 2019	2,684,976	2,492,237	5,050,791	78,384	1,800	102,863	860,846	3,908	32,833	40,156	6,531,632	17,880,426	
Additions to capital work in progress	-	-	-	-	-	-	-	-	-	-	1,770,546	1,770,546	
Transfer from capital work in progress	11,827	101,714	328,947	7,153	-	7,042	24,882	995	1,317	39,132	(523,009)	-	
Internal transfers	(9,153)	12,967	-	(10,505)	-	-	5,200	14	(527)	2,004	-	-	
Write off	(29,421)	(172)	-	(1,115)	-	(439)	(512)	(27)	(114)	(494)	-	(32,294)	
At 31 March 2020	2,658,229	2,606,746	5,379,738	73,917	1,800	109,466	890,416	4,890	33,509	80,798	7,779,169	19,618,678	
<b>Accumulated depreciation and impairment losses</b>													
At 1 April 2019	1,334,535	949,885	2,044,286	61,058	1,398	39,649	256,522	2,425	32,099	35,150	-	4,757,007	
Charge for the year	69,697	101,404	195,759	10,572	209	6,620	30,669	600	298	5,215	-	421,043	
Internal transfers	3,050	1,921	-	(11,873)	-	-	5,411	14	(527)	2,004	-	-	
Write off	(28,824)	(170)	-	(1,090)	-	(354)	(454)	(27)	(112)	(493)	-	(31,524)	
At 31 March 2020	1,378,458	1,053,040	2,240,045	58,667	1,607	45,915	292,148	3,012	31,758	41,876	-	5,146,526	
<b>Carrying value</b>													
At 31 March 2020	1,279,771	1,553,706	3,139,693	15,250	193	63,551	598,268	1,878	1,751	38,922	7,779,169	14,472,152	

**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 March 2021*

**6. Leases**

31 March 2021	Right of use of assets			Total (KD'000)
	Rigs (KD'000)	Heavy equipment (KD'000)	Motor vehicles and helicopters (KD'000)	
<b>Cost</b>				
At 1 April 2020	1,181,838	3,370	14,060	1,199,268
Additions	255,793	7,299	-	263,092
At 31 March 2021	<u>1,437,631</u>	<u>10,669</u>	<u>14,060</u>	<u>1,462,360</u>
<b>Accumulated depreciation and impairment losses</b>				
At 1 April 2020	340,803	1,312	3,188	345,303
Charged to profit and loss	104,825	3,779	3,188	111,792
Charged to capital work in progress	220,420	-	-	220,420
At 31 March 2021	<u>666,048</u>	<u>5,091</u>	<u>6,376</u>	<u>677,515</u>
<b>Carrying value</b>				
At 31 March 2021	<u>771,583</u>	<u>5,578</u>	<u>7,684</u>	<u>784,845</u>
<b>31 March 2020</b>				
<b>Cost</b>				
At 1 April 2019	655,737	-	14,060	669,797
Additions	526,101	3,370	-	529,471
At 31 March 2020	<u>1,181,838</u>	<u>3,370</u>	<u>14,060</u>	<u>1,199,268</u>
<b>Accumulated depreciation and impairment losses</b>				
At 1 April 2019	-	-	-	-
Charged to profit and loss	76,486	1,312	3,188	80,986
Charged to capital work in progress	264,317	-	-	264,317
At 31 March 2020	<u>340,803</u>	<u>1,312</u>	<u>3,188</u>	<u>345,303</u>
<b>Carrying value</b>				
At 31 March 2020	<u>841,035</u>	<u>2,058</u>	<u>10,872</u>	<u>853,965</u>

Amounts recognised in profit or loss

	31 March 2021 KD'000	31 March 2020 KD'000
Expense relating to short term leases	76,806	89,223
Expense relating to leases of low value assets	14,563	14,492

**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 March 2021*

	<b>Lease liabilities</b>	
	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
As at 1 April	980,285	669,797
Additions	263,092	529,471
Finance cost charged to profit and loss	8,205	7,187
Finance cost capitalized	25,170	26,087
Lease payments	<u>(338,260)</u>	<u>(252,257)</u>
<b>As at 31 March</b>	<b><u>938,492</u></b>	<b><u>980,285</u></b>

The current and non-current portion of lease liability is set out below:

	<b>Lease liabilities</b>	
	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
Current lease liability	289,685	335,529
Non-current lease liability	<u>648,807</u>	<u>644,756</u>
<b>As at 31 March</b>	<b><u>938,492</u></b>	<b><u>980,285</u></b>

**7. Intangible assets**

<b>31 March 2021</b>	<b>Seismic surveys</b>	<b>Others</b>	<b>Total</b>
	<b>KD'000</b>	<b>KD'000</b>	<b>KD'000</b>
<b>Cost</b>			
As at 1 April 2020	163,679	2,126	165,805
Additions during the year	1,391	-	1,391
Transfers	<u>(3,336)</u>	<u>3,336</u>	<u>-</u>
<b>At 31 March 2021</b>	<b><u>161,734</u></b>	<b><u>5,462</u></b>	<b><u>167,196</u></b>
<b>Accumulated amortization and impairment losses</b>			
At 1 April 2020	85,191	2,092	87,283
Amortised during the year	4,933	-	4,933
Transfers	<u>(3,370)</u>	<u>3,370</u>	<u>-</u>
<b>At 31 March 2021</b>	<b><u>86,754</u></b>	<b><u>5,462</u></b>	<b><u>92,216</u></b>
<b>Net book value</b>			
<b>At 31 March 2021</b>	<b><u>74,980</u></b>	<b><u>-</u></b>	<b><u>74,980</u></b>

**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 March 2021*

<b>31 March 2020</b>	<b>Seismic surveys KD'000</b>	<b>Others KD'000</b>	<b>Total KD'000</b>
<b>Cost</b>			
<b>At 1 April 2019 and 31 March 2020</b>	163,679	2,126	165,805
<b>Accumulated amortization and impairment losses</b>			
At 1 April 2019	80,299	2,061	82,360
Amortised during the year	4,892	31	4,923
<b>At 31 March 2020</b>	85,191	2,092	87,283
<b>Net book value</b>			
<b>At 31 March 2020</b>	78,488	34	78,522

**8. Inventories**

	<b>2021 KD'000</b>	<b>2020 KD'000</b>
Inventories at cost	415,484	342,806
Provision for obsolete and slow-moving items	(8,764)	(4,209)
	406,720	338,597
<i>Classified in statement of financial position as:</i>		
Construction inventories	288,455	224,434
Consumable inventories	118,265	114,163
	406,720	338,597

**9. Advances and other receivables**

	<b>2021 KD'000</b>	<b>2020 KD'000</b>
Advances to contractors	161,258	301,763
Prepaid expenses	261	2,119
Staff advances	29,501	22,172
Other receivables	30,462	20,025
Less: Expected credit loss	(3,814)	(3,814)
	217,668	342,265

**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 March 2021*

**10. Due to the Parent Company, net**

Due to the Parent Company, net represents the net balance of amounts due from and (to) the Parent Company. Movements on this balance during the year were as follows:

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
At 1 April	10,832,001	9,547,501
Net revenue receivables (note 17)	(1,986,400)	(3,290,211)
Net funds transfer	2,781,811	2,989,240
Dividend distributed (note 15)	396,486	560,268
Contribution to shareholder (note 23)	39,596	1,019,535
Other movements	(13,014)	5,668
<b>At 31 March</b>	<u>12,050,480</u>	<u>10,832,001</u>
<b>Non-current receivables</b>		
Receivable from Parent Company (relating to transfer of statutory reserve)	(15,094)	(15,094)
	<u>12,035,386</u>	<u>10,816,907</u>

In accordance with the Company's Article of Association, an amount equal to statutory reserve is transferred to the Parent Company. The amount due to the Parent Company is unsecured and non-interest bearing, with no fixed terms of payment. This has been classified as non-current as Parent Company does not intend to request repayment in the short-term.

**11. Cash and cash equivalents**

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
Cash in hand	17	18
Cash at bank	12,950	8,717
	<u>12,967</u>	<u>8,735</u>

**12. Equity**

*Share capital*

The authorized, issued and fully paid up share capital of the Company comprises of 30,188,291 (31 March 2020: 30,188,291) shares of KD 1 each. The share capital is paid in cash.

*Shareholder's current account*

This account represents interest free contributions from the Parent Company and is classified as owner's equity as the Parent Company has given the Company the discretion to determine the timing and amounts of repayment.

**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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*Statutory reserve*

In accordance with the Companies Law No. 1 of 2016, as amended, and its Executive Regulations and the Company's Articles of Association, 10% of profit for the year is transferred to statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital.

As permitted by the Companies Law No. 1 of 2016, and its Executive Regulations, the Board of Directors resolved to limit this reserve to 50% of the share capital and accordingly only KD 15,094 thousands has been appropriated to the statutory reserve. This has been approved by the shareholder.

**13. Post-employment benefits**

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
Balance at beginning of the year	667,309	616,431
Charge for post-employment benefits	56,821	86,578
Payments made during the year	<u>(31,863)</u>	<u>(35,700)</u>
Balance at end of the year	<u>692,267</u>	<u>667,309</u>

**14. Accounts payable and other liabilities**

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
Accounts payable	382,766	484,546
Contractor and suppliers retentions	253,586	234,138
Liquidated damages	322,121	277,648
Staff payables	105,523	86,307
Accrued expenses	46,525	30,257
Others	<u>14,408</u>	<u>12,036</u>
	<u>1,124,929</u>	<u>1,124,932</u>

**15. Dividend payable**

The Company's Articles of Association stipulate that the net profit for the year after transfer to statutory reserve is payable as dividend. Upon the approval of these financial statements, dividend payable will be transferred to the Parent Company (note 10).

**16. Related party transactions**

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

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

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

**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 March 2021*

a) *Transactions with related parties:*

The Company has entered into transactions with related parties on terms approved by the management.

- i. Costs recoverable from group companies for services provided by the Company are disclosed in note 20.
- ii. All of the Company's net revenue for the year amounted to KD 1,986,400 thousands (31 March 2020: KD 3,290,211 thousands) represent net sales by the Parent Company (note 17).
- iii. Training costs charged by the Parent Company amounted to 1,505 thousands (31 March 2020: KD 4,971 thousands) (note 21).
- iv. The Company extracted and transferred gas to Kuwait National Petroleum Company K.S.C., On behalf of the Parent Company for which no separate revenue arrangement is in place (note 17).

**Key management compensation**

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
Salaries and other employee benefits	1,075	883

b) *Balances with related parties under the common control of the Parent Company:*

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
<b>Due from group companies:</b>		
Kuwait National Petroleum Company K.S.C.	26,861	29,600
Kuwait Oil Tanker Company S.A.K.	7,919	6,698
Kuwait Foreign Petroleum Exploration Company K.S.C.	607	260
Kuwait Aviation Fueling Company K.S.C.	158	418
Petrochemical Industries Company K.S.C.	4,284	4,806
Kuwait Petroleum International Limited	221	386
Kuwait Gulf Oil Company K.S.C. (Closed)	3,945	5,821
Oil Sector Services Company K.S.C. (Closed)	76	110
Kuwait Integrated Petroleum Industries Company	3,693	3,657
	<u>47,764</u>	<u>51,756</u>

**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 March 2021*

**17. Revenue**

The Company earns revenue from the exploration and extraction of crude oil which belongs to the State of Kuwait. Revenue from these services is computed based on the sale value of crude oil by the Parent Company less allocated costs as follows:

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
Gross revenue	10,565,960	17,501,128
Royalty	(2,113,192)	(3,500,226)
Fiscal levy	(6,255,049)	(10,360,668)
Marketing fee	(211,319)	(350,023)
Net revenue (note 10)	<u>1,986,400</u>	<u>3,290,211</u>

Applicable percentages on above allocation are disclosed under revenue recognition policy (see note 3(f)). In the absence of a separate revenue arrangement for exploration and extraction of gas, the above revenue deemed to be attributable to extraction of crude oil and gas at KD 1,939,072 thousands (2020: KD 3,225,610 thousand) and KD 47,328 thousands (2020: KD 64,601 thousands) respectively. This allocation is based on a relative standalone selling price basis that depicts the amount of consideration to which the Company expects in exchange for extracting the goods to the Parent Company.

The Company and the Parent Company is in the process of establishing a mechanism to determine the extraction charge for gas.

**18. Total cost**

Total cost consists of the following:

	<b>Note</b>	<b>2021</b>	<b>2020</b>
		<b>KD'000</b>	<b>KD'000</b>
Total operating cost		1,993,519	1,928,593
Add: General and administration expenses	21	103,192	110,013
Less: Other operating income	19	(33,806)	(32,919)
Total cost		<u>2,062,905</u>	<u>2,005,687</u>

The allocation of total cost by function including general and administrative expenses and other operating income are as follows:

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
Crude oil production	1,081,213	1,014,819
Gas production	374,660	367,129
Export operations	42,615	114,717
Abortive drilling expenditure	2,515	1,301
Depreciation, amortization and write off	561,902	507,721
Total cost	<u>2,062,905</u>	<u>2,005,687</u>

**Kuwait Oil Company K.S.C.**  
**State of Kuwait**

**Notes to the financial statements**  
*for the year ended 31 March 2021*

**19. Other operating income**

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
Port fees	19,600	18,712
Other income	14,206	14,207
	<u>33,806</u>	<u>32,919</u>

**20. Recoverable costs**

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
Kuwait National Petroleum Company K.S.C.	23,934	21,152
Kuwait Gulf Oil Company K.S.C.	670	(109)
Kuwait Petroleum Corporation	441	334
Kuwait Integrated Petroleum Industries Company K.S.C.C.	45	79
Kuwait Foreign Petroleum Exploration Company K.S.C.	9	-
Kuwait Oil Tanker Company S.A.K.	187	-
Group companies for medical services	114,447	117,106
	<u>139,733</u>	<u>138,562</u>

Costs reimbursable by Kuwait National Petroleum Company K.S.C. mainly represent marine services provided for export operations.

**21. General and administrative expenses**

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
Utilities	56,192	57,819
Training costs (note 16)	1,505	4,971
Insurance	9,619	9,484
Medical costs	22,163	28,147
Others	13,713	9,592
	<u>103,192</u>	<u>110,013</u>

Training costs represent the Company's share of costs charged by the Parent Company. Staff costs are included in cost of production as employee cost and are disclosed separately in the statement of profit or loss and other comprehensive income.

**22. Directors' remuneration**

Board of Directors' remuneration of KD 42 thousand (31 March 2020: KD 42 thousand) is subject to the approval of the shareholder at the general assembly meeting.

**23. Contribution to the shareholder**

In accordance with the reporting structure of the Company as a profit center (see note 1 and 10), 72% of the net profit for the year is payable to the Parent Company.

**Notes to the financial statements**  
*for the year ended 31 March 2021*

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**24. Financial instruments**

**Financial risk management**

*Overview*

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Company continuously reviews its financial risk exposures and takes measures to limit these to acceptable levels. Financial risk management is carried out by the Company's Financial Services Group, under policies approved by the Board of Directors. The Financial Services Group identifies and evaluates financial risks in close co-operation with the operating units of the Company. The Board provides written principles for overall financial risk management, as well as written policies covering specific areas, such as credit risk, market risk and liquidity risk which are discussed below:

a. Credit risk

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from bank balances, advances and other receivables and amounts due from group companies.

The Company's total sales are to the Parent Company inside Kuwait and, therefore, there is low credit risk.

The maximum exposure to credit risk for financial assets at the reporting date was:

	<b>2021</b>	<b>2020</b>
	<b>KD'000</b>	<b>KD'000</b>
Receivable from the Parent Company	15,094	15,094
Advances and other receivables	217,407	340,146
Amounts due from group companies	47,764	51,756
Cash and bank balances	12,967	8,735
	<u>293,232</u>	<u>415,731</u>

The Company under instructions from the Parent Company deposits surplus cash with various local financial institutions of high credit rating. There are no past due or impaired receivables and the Company does not hold any collateral against these receivables.

The Company monitors changes in credit risk on these exposures by tracking published external credit ratings of the counterparties.

b. Market risk

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

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has no significant interest bearing assets or liabilities and therefore the Company's future performance and cash flows are independent of changes in market interest rates.

*Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates.

The Company is exposed to foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar primarily US Dollar and Euro. The Financial Services Group monitors and measures currency exposures on recognized assets and liabilities on a regular basis.

The Company manages foreign currency risk by matching assets and liabilities of similar currency exposures and by obtaining advances in foreign currencies from the Parent Company to pay of its foreign currency third party liabilities. Therefore the fair value of future cash flows of the Company's financial instruments are not significantly affected due to changes in foreign currency rates.

*Equity price risk*

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

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

c. Liquidity risk

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

The Company's financial liabilities essentially mature within one year except for due to Parent Company, net. However, its activities are solely funded by the Parent Company which significantly minimizes liquidity risk.

***Fair value***

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

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

**25. Capital risk management**

The Company's capital management objectives are to safeguard the Company's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the costs of capital. The Company's exposure to capital risk is limited as there are no external financing as at the reporting date.

Further, the Company is not subject to externally imposed capital requirements, except the minimum capital requirements of the Companies Law No. 1 of 2016, as amended, and its Executive Regulations.

**26. Commitments and contingencies**

Commitments for future capital expenditure in relation to lump sum contracts and purchase orders amounted to KD 1,026 million (31 March 2020: KD 1,516 million).

**27. Claims and litigations**

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

**28. Contingent assets / liabilities**

KOC's total estimated losses which resulted from the Iraqi invasion and occupation of Kuwait have been included in four separate claims, based on the type of loss, filed with the United Nations Compensation Commission through the Public Authority for Assessment of Compensation in Kuwait. The aggregate amount of these claims is approximately equal to US\$ 3,137 million (approximately equal to KD 884 million) out of which US\$ 2,838 million (approximately equal to KD 800 million) was approved. The financial statements do not include amounts related to these claims. The full amount has been received by the Company which was remitted to the Parent Company directly.

## **29. COVID-19 Update**

In December 2019, the emergence of coronavirus (COVID-19) was reported in China and has subsequently spread globally. On 11 March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Mobility restrictions, quarantines and similar lockdown measures implemented in different countries to cope with the pandemic had a significant negative impact on the global economy. Deceleration of economic activity resulted in a substantial decrease in demand for hydrocarbons leading to oversupply on the international oil market and a sharp decline in oil prices. Failure of OPEC+ countries to reach a new agreement on crude oil production quotas in the beginning of March 2020 put an incremental pressure on oil prices. On 12 April 2020, OPEC+ countries entered into a new agreement to reduce their collective output starting from 1 May 2020. This coordinated production cut together with the negative impact of low oil prices on crude oil production in different countries resulted in lower supply of crude oil, reduction of surplus on the crude oil market and led to a gradual recovery of oil prices. This upward oil price trend was further supported by the start of gradual lifting of lockdowns in different countries, recovery in economic activity and respective growth in demand for hydrocarbons. The OPEC+ agreement to continue production cuts in the first quarter of 2021 to clear surpluses built up over the pandemic has supported prices to levels not seen since January 2020. But the second wave of Covid-19 lockdowns which continue to dampen demand are likely to put a cap on prices in the short-term. The successful development of vaccines and the ongoing widespread vaccination effort is expected to increase demand as countries become able to reduce measures implemented to eliminate the spread of the virus, for which the Company observed new waves of outbreak of more contagious mutant versions late in 2020 and the first quarter of 2021.

In response to COVID-19, the Company has implemented active prevention programs at its sites and contingency plans in order to minimize the risks related to COVID-19 and to continue business operations. The COVID-19 pandemic has had an adverse impact on oil demand, which has led to an oversupply in global markets. This has resulted in a reduction in crude oil prices, which has significantly impacted Company's revenue and overall financial performance during the year ended 31 March 2021.

The management has taken measures to optimize spending, which resulted in reducing operational and capital expenditures during the year ended 31 March 2021. The full extent and impact of the COVID-19 pandemic is unknown at this time and the degree to which it may impact the Company's business operations and financial results will depend on future developments, which are highly uncertain and cannot be predicted with any degree of confidence, including: the duration, severity and geographic spread of the COVID-19 virus.