

2021/2022

ANNUAL REPORT



إحدى شركات مؤسسة البترول الكويتية
A Subsidiary of Kuwait Petroleum Corporation





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



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

Board Members





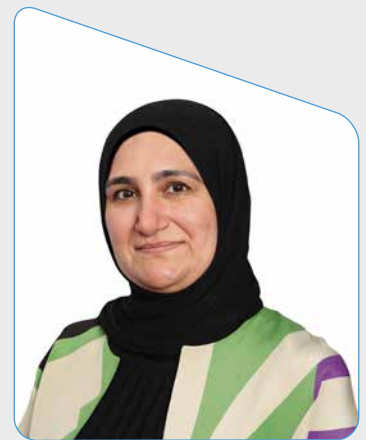
Sanad Al-Sanad
Chairman of the board



Khalid Al-Otaibi
Ag. Chief Executive Officer



Khaled Al-Khamees
Deputy Chairman



Wafaa Al-Zaabi
Board Member



Khaled Al-Khayat
Board Member

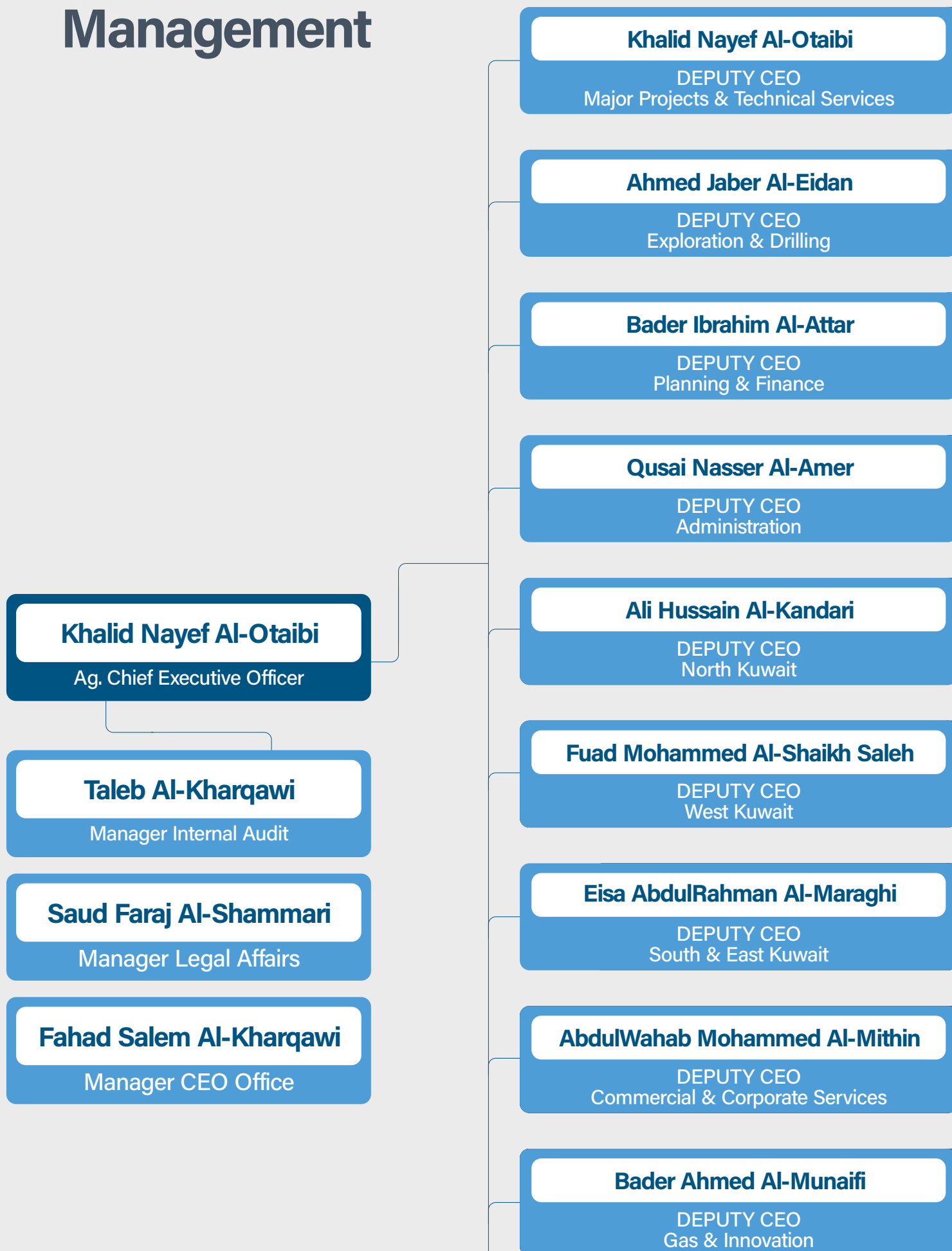


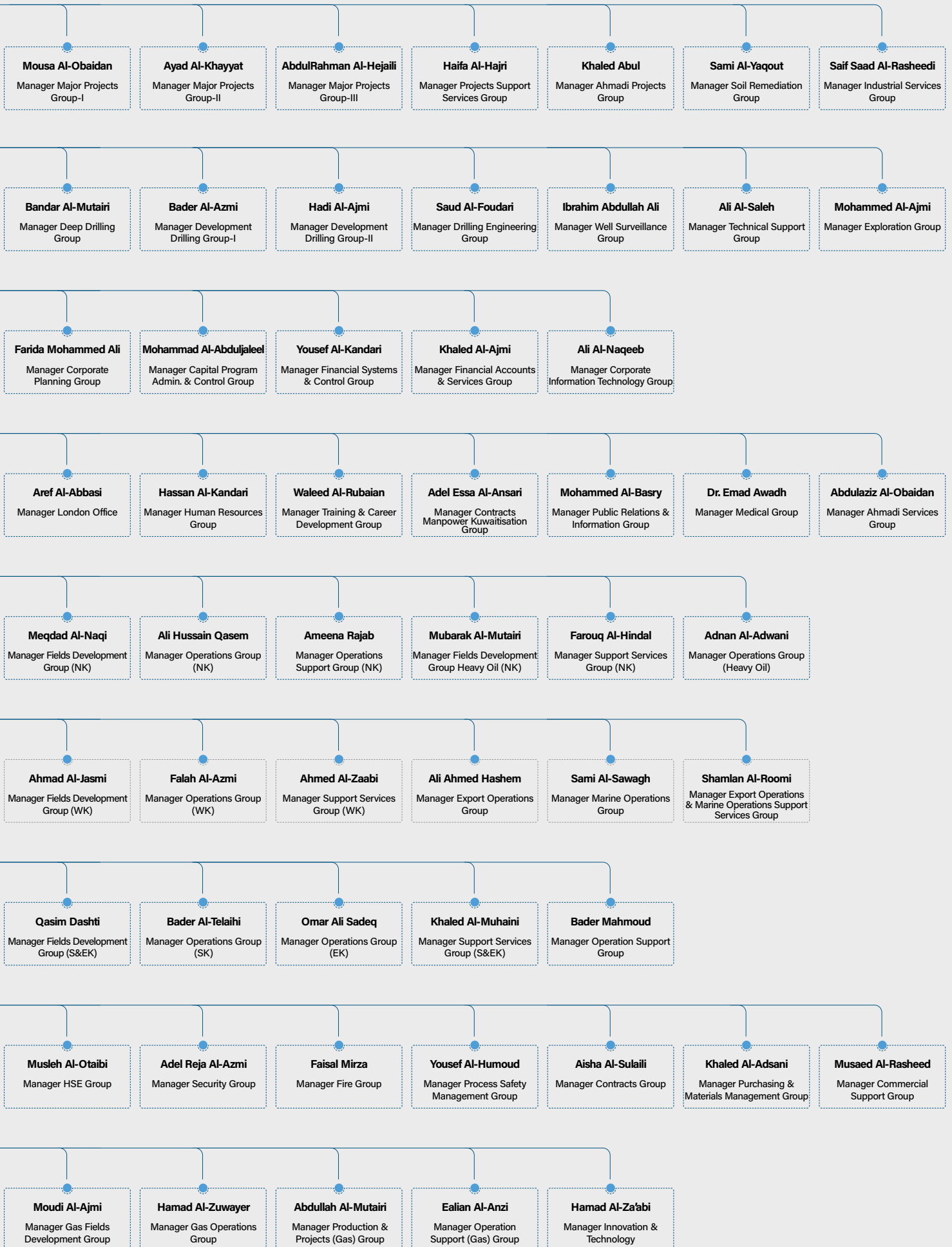
Ali Al-Awadhi
Board Member



Menahi Al-Enzi
Board Member

Management





Contents



Introduction	7
CEO Message	9
Achieve Sustainable Crude Oil Production Capacity	11
Achieve Sustainable Non-Associated Gas Production	15
Replace Reserves to Sustain Production	19
Strive for World-Class Operational Excellence	23
Optimize Portfolio Management	29
Facilitate Technology & Capability Transfer	33
Actively Manage Stakeholders to Satisfy Kuwait's Energy Demands Efficiently	43
KOC's Ambitions	48
Financial Report	49

Introduction



Over the course of the 2021/2022 fiscal year, KOC continued to overcome the various challenges associated with the COVID-19 pandemic, culminating in a final push toward the return to normalcy. While work restrictions were significantly less severe than the previous two years, fundamental challenges still existed, which required further efforts.

In this regard, the most prominent challenge facing KOC after the pandemic was to seek maximum production capacity in order to meet domestic and global demand for various types of oil such as Kuwaiti export oil, high-quality light Kuwaiti oil, heavy oil, as well as free and associated natural gas.

A number of factors – primarily the geopolitical threat of a prolonged war in Europe and subsequent disruptions to energy supply chains – has caused the price of oil to increase significantly in the first quarter of 2022.

In the face of the resulting global uncertainty, KOC is recommitting its production efforts in order to remain a reliable supplier of energy to the world. In this regard, exploration and production activities in the field continued their progress, with KOC initiating the drilling of 380 new wells for Crude Oil and Non-Associated Gas across KOC's areas of operation. Moreover, the number of workover jobs reached 1,175, and the Company also registered one new Cretaceous discovery over the course of the past fiscal year. KOC also continued to acquire and utilize various forms of advanced technology in all aspects of its industrial and administrative programs to reduce costs and improve the performance of its operations.

We have continued to reduce the natural gas flaring rates within the Company's areas of operation inside Kuwait, and maintained the rate under 1%. This reflects KOC's determination to keep pace with the constant development of the oil and gas industry worldwide, particularly in the field of environmental conservation, which is in line with the global effort to address climate change issues. In part, this achievement reinforces Kuwait's position amongst the leading oil and gas producing countries.

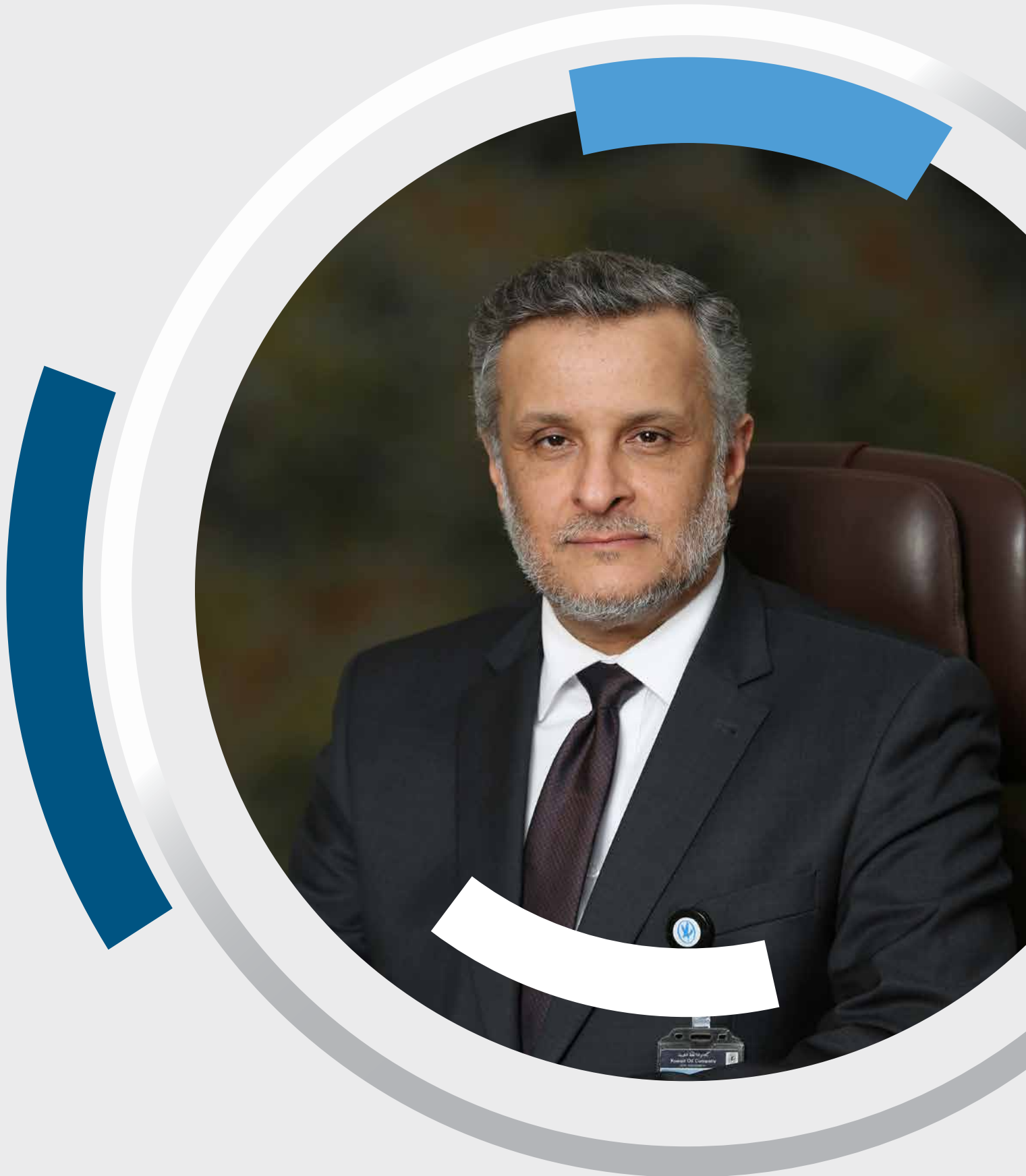
In addition, the Company has remained fully focused on its recruitment and training initiatives. In this regard, 366 new Kuwaiti employees were hired. Meanwhile, the Company's Health, Security, Safety and Environment (HSSE) efforts remain focused on reducing the Lost Time Injury Frequency Rate (LTIFR) to 0.012 accidents per 200,000 working hours by the end of this year.

The Company continues to organize various initiatives and campaigns as part of its Corporate Social Responsibility (CSR) efforts, and its commitment to social responsibility has resulted in a series of both new and ongoing initiatives that seek to create public awareness and engagement.

From health and safety awareness sessions provided to many segments of the community, to environmental remediation efforts in the field, KOC remains committed to improving the lives of Kuwait's citizens and residents whenever and wherever possible.

In the following report, a description of the Company's performance and achievements is put forth within the context of its strategic objectives.

Ag. CEO's Message



I am greatly proud to present you with the KOC Annual Report for 2021/22. In the pages that follow, you will find an extensive review of the activities and achievements KOC has registered over the past year.

I would like to take this opportunity to thank every KOC employee who has made the effort to push our company forward as we strive for operational excellence and safety in all our areas of operation. KOC is entirely reliant on our employees and partners, and this human capital is by far our most important resource – and it is one which we continuously endeavor to strengthen.

With regard to KOC's activities over the last fiscal year, I am proud to report that our core operations continue to be defined by close cooperation amongst all Directorates, Groups, and Teams. This is especially true when viewed through the lens of KPC's 2040 Strategic Plan for the Oil Sector, which KOC has played a major role in defining. In part, this strategic vision calls for an increase in KOC's production capabilities in the years ahead while maintaining our adherence to world-class standards as they relate to safety, efficiency, and environmental protection. In addition to current major projects, this report also details a number of new and ongoing initiatives, including KOC's most recent effort to explore for offshore hydrocarbon resources.

For nearly 90 years, KOC has been at the forefront of the State of Kuwait's march toward progress and prosperity. As we move forward into the future, we aim to continue improving and streamlining our operational capabilities in order to fully leverage our competitive advantages as they relate to technology, technical expertise, and our skilled workforce.

At KOC, we remain committed to implementing the work that is necessary for us to uphold our responsibility of providing innovative upstream solutions that create sustainable value for the State of Kuwait. In the report that follows, we describe the Company's performance and achievements within the framework of KOC's strategic objectives, and how the Company has risen to various operational challenges in the face of a changing global environment.

With high respect and appreciation,

Khalid Al-Otaibi

Ag. Chief Executive Officer

Kuwait Oil Company

1st Strategic Objective

Achieve Sustainable Crude Oil Production Capacity





1. Crude Production Capacity

KOC's efforts to increase and enhance crude oil production capacity continue by overcoming constraints and accomplishing achievements with the concerted efforts of all its employees, and these efforts continue to strive to reach the target production capacity for the coming years. Among the Company's most notable achievements in reaching crude oil production capacity as intended for fiscal year 2021/2022 are the following:

- KOC launched the first water injection well in Bahra field in November 2021. This achievement is a qualitative shift in the development of the reservoir in Bahra field, which is in line with the field's need to develop its production capacity as part of the 2040 Strategy. The well is connected to a water treatment and injection plant through a 12 km water pipeline, and was completed within a record time of 90 days.
- KOC signed a cooperation protocol with the Ministry of Defense to begin offshore oil & gas exploration and drilling in Kuwaiti territorial waters in December 2021. The cooperation between the two parties aims to achieve important components of the State of Kuwait's national strategy under the New Kuwait 2035 Vision.
- For the first time in Kuwait's history, three different types of crude oil were exported in April 2021 to China through three different supply stations: the Al-Rahwi Marina, the New Oil Pier, and the Northern Pier of Kuwait National Petroleum Company.
- In July 2021, two multilateral wells were successfully drilled in North Kuwait despite many challenges. One well included three sub-pits, while the other included six sub-pits.
- In August 2021, Gathering Center GC-31 was completed and became operational as part of KOC's 2040 Strategy. The new facility will contribute to the production of 100,000 barrels of oil, 62.5 million cubic feet of gas, and 240,000 barrels of treated water per day, which will improve the value of Kuwait's hydrocarbon resources and maintain production capacity in North Kuwait.

The table below shows the status of the most important major projects in the Company's areas of operation, which will contribute to the provision of technical solutions and overcome many challenges in the coming years:

Area	Project	Status
North Kuwait	EF/2030: Separation Facilities in NK SA/BA area, Injection Facility at GC-31 and new Injection Networks	Under Construction
	EF/2078: Separation Facility at GC-25 and Water Injection Facilities at GCs-29 & 30	Under Construction
South & East Kuwait	EF/1945: Train 3 of Wara Pressure Maintenance Project (Wara PMP)	Under Construction
	GC-32 New Gathering Center for S&EK	Under Construction
	EF/1772 : Wara Pressure Maintenance Project	Under Construction
West Kuwait	EF/1669: KOC FEED Pipelines for New Refinery Project (NRP)	Under Construction
	3309: Marine Facilities Upgrade – Fleet Project	Under Construction
Drilling	Drilling of Six Exploratory Wells for Establishing Offshore Hydrocarbon Prospects in Kuwait's Territorial Waters	Under Construction
Gas Projects	Jurassic Production Facility 1,2,3 Upgrade	Under Construction
	Jurassic Production Facility 4 & 5	Under Construction

2. Drilling and Workovers (Excluding Light Oil)

The total number of wells that were drilled specifically for the production of oil (excluding Light Oil) reached 340 new wells, in addition to 1,175 workovers that were completed for the purpose of oil well maintenance.

The table below shows the number of wells drilled throughout the fiscal year 2021-2022:

Classification of Development Wells	Number of Wells Drilled
North Kuwait	126
South & East Kuwait	149
West Kuwait	49
Heavy Oil	4
Exploratory Wells	12
Total	340

2nd 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 2040 Strategy goals, including achieving actual production capacity from Non-Associated Gas.

In this regard, the Company signed the Jurassic Production Facility JPF-5 contract in November 2021, followed by the Jurassic Production Facility JPF-4 contract in December 2021. Both projects will contribute to the strategic production plan to reach 1 billion cubic feet of Non-Associated Gas per day by 2024 from Jurassic fields.

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

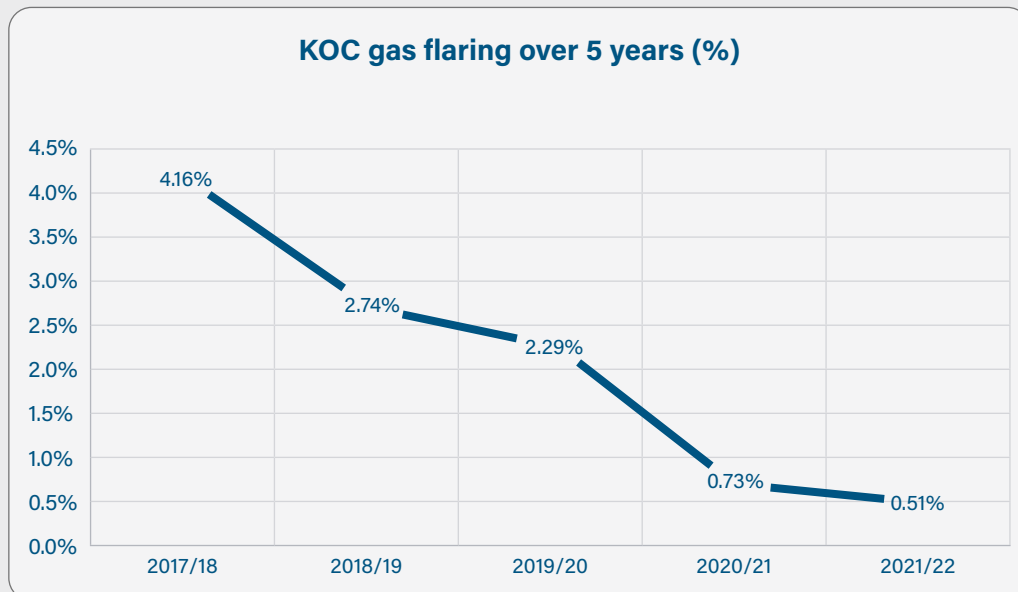
Over the course of the past fiscal year, KOC drilled 40 deep wells, which helped the Company reach its Non-Associated Gas production targets. In addition, 13 workover operations were completed to maintain production from Non-Associated Gas wells.

Classification of Deep Wells	Number of Wells Drilled
Deep (Jurassic)	24
South & East Kuwait (Jurassic)	6
West Kuwait (Jurassic)	7
Exploratory (Jurassic)	3
Total	40

3. Reduction of Gas Flaring

Over the years, KOC has spared no effort to preserve the environment while maintaining the flow of operations, and one of its most prominent efforts made in this regard, is the reduction of Gas Flaring, in which KOC has become a benchmark.

In 2021, KOC has achieved internationally advanced positions in the gas flaring reduction index, with gas flaring rates in the past five years falling from 4% to 0.5%. One of the most significant attributes that helped reduce gas flaring is achieving highest readiness rates in West Kuwait facilities. Specifically, Gas Booster Station 171's gas flaring rate decreased from 1% in May 2021 to 0.5% in March 2022, to keep up with the Company's target of maintaining a rate under 1%, eventually steering Kuwait to a leading position in the World Bank's Global Gas Flaring Reduction Partnership. This is due to the operation of KNPC's new acid gas removal plant and additional measures taken by the relevant KOC teams.



3rd 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 first application of its kind was launched by cracking the low porous and permeable layers of the Marat layer, where the Gas Field Development Team used the “Acid Frac Application” which will open up new horizons for drilling new horizontal wells with unusual reservoirs.
- The first Long-Range Polymer Injection Test (LPTI) was carried out at Well-831 in Burgan field, where the South & East Kuwait Field Development Team designed a long-range injection test targeting the Wara reservoir. This application aimed to eliminate the need for multi-well pilot projects, resulting in significant costs and time savings, as well as reducing water treatment requirements at Gathering Centers for the development of enhanced oil extraction and production sustainability.
- In July 2021, simultaneous injection and production was tested for the first time at Burgan field. The injection was into a Wara (low-pressure) layer in a well in conjunction with the production of a well in the Burgan layer. This resulted in increased production, reduced spending on drilling new wells in this area, and produced stimulating results to expand the scope of the experiment.
- And in August 2021, the chemical pumping phase of the SAMA ASP flooding pilot project, the first of its kind in the world, was launched using alkaline materials, surface stimulants, and polymers in the Sabriyah-Maudud (Northern Kuwait) reservoir for the purpose of maintaining production and increasing proven reserves in accordance with KOC’s strategic plans.

2. Seismic Survey Operations

Seismic surveys are one of the most essential tools for KOC’s onshore and offshore oil & gas exploration operations. In this context, KOC completed a marine survey for the first time in December 2021, with the aim to help remove risks and obstacles at exploration well drilling sites in Kuwait’s territorial waters. The importance of this survey is its focus on ensuring the safety of offshore drilling operations, in addition to its implementation as a vital step for moving offshore drilling towers to drill sites. The survey is divided into three sections: geophysical survey, marine mine survey, and seabed rigidity examination— a step that marks a new era for Kuwait’s exploration and production history.

In October 2021, KOC made a new oil discovery in the Houma field, which was explored through a 3D seismic survey. The preliminary assessment results showed that the field was estimated to be about 70 square kilometers in size and 11 feet thick in the location of the Jurassic reservoir limestone. The field has a light oil production capacity of 1,452 barrels per day.

3. Onshore Exploratory Drilling Activities

As mentioned previously in the Drilling Operations and Workover Wells table, many exploratory drilling operations were completed during the 2021/2022 fiscal year, which will contribute to achieving KOC’s strategic goals in terms of adding reserves and production, including a discovery in the Cretaceous layer. The Cretaceous Exploratory Well (SUK-08) was drilled and oil was extracted with an API ranging between 7.4 and 15.4.



4th Strategic Objective

Strive for World-Class Operational Excellence



	Target (%)	Actual (%)
KwIDF	95%	90%
Non KwIDF	95%	92%
Wells (Availability)	95%	97%
Well models health (matched well models)	95%	90%
Well Tests (Validated Well Tests)	95%	90%
	95%	91%

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KPI	Target (%)	Actual (%)
Reservoir Indicator (Current Month)		





Health, 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, our efforts to improve matters related to health and the environment remain as prominent goals of the 2040 strategic objectives.

1. Health

KOC is deeply committed to facilitating health services for employees and is in support of the vaccination plan launched by the Ministry of Health in Kuwait. As a result, the KOC Medical Group successfully completed the three-day vaccination campaign, which included the administration of the third vaccine dose (Booster Shot) to protect against the COVID-19 virus. In cooperation with the Ministry of Health, the campaign witnessed the turnout of a large number of Company employees and contractors at its headquarters.

The establishment of the Drive-Thru Vaccination Center at Jaber Al-Ahmad Causeway was completed in cooperation and coordination between KOC, the Ministry of Health, and KIPIC in a record time of only 20 days. The drive thru center allows for over 5,000 cars to drive through per day, which significantly increases vaccination efforts, while maintaining the lowest rates for potential contamination.





2. Safety and Security

- KOC's safety initiatives and efforts are focused on reducing the Lost Time Injury Frequency Rate (LTIFR), which reached 0.012 accidents per 200,000 working hours at year-end, against the yearly tolerance of 0.019 accidents per 200,000 working hours. This is an improvement when compared to last year's 0.013 accidents per 200,000 working hours.
- Matters related to Cybersecurity are becoming increasingly important to the overall security of the Company. Considering the growth and new directions the Company is embarking on, KOC's Information Technology Group has completed and implemented the infrastructure development project for network load distributor systems and web application protection. This project aims to increase network capacity and speed up user access to various systems and applications while providing full security protection. The success of this project is an important addition to the process of improving the information network infrastructure at the Company, ensuring smooth and easy business continuity while supporting our digital transformation, and is part of the joint IT Group's efforts to improve E-Services.
- The Company's Emergency and Crisis Management Team has completed a series of courses on hazardous materials accidents, which were organized at the North Kuwait Fire Center. These courses aimed to train and prepare first responders to deal with accidents involving hazardous materials, particularly sulfur dioxide. The courses have ensured that they conform to the most accurate international standards in order to enhance the continuity of the Company's operations and maintain the safety of workers and facilities.



3. Environment

- In terms of protecting the environment, many initiatives have contributed to KOC's efforts. In this regard, The Company organized a clean-up campaign in Kuwait's desert in October 2021, where the Health, Safety, Security and Environment Group organized a campaign to remove litter. This was conducted in cooperation with the Road & Support Team and the Kuwait Municipality, under the slogan "Clean Kuwait Green Kuwait", and was attended by the Director of the Hygiene Department at Kuwait Municipality, which featured the participation of 200 contractors who volunteered to remove illegal camps and waste. The initiative aimed to highlight the Company's role in preserving the environment by creating awareness about the importance of protecting Kuwait's desert and maintaining its biodiversity.
- A major milestone was achieved in the Kuwait Environmental Remediation Program (KERP) - the world's largest environmental treatment project - where the Company signed five contracts for the treatment of contaminated soil from of the Iraqi invasion. The contracts cover drilling, transportation and soil treatment, as well as the rehabilitation of approximately 13 million cubic meters of soil contaminated by oil spills in northern and southern Kuwait.
- KOC also joined the World Bank initiative to prevent gas flaring, and the Company succeeded in achieving an advanced position in the list of global partnerships to reduce the flaring of associated gas at the level of the Gulf region and OPEC. KOC received the Award of Excellence and reduced the rate of flaring of associated gas to less than 1% in operations, an achievement that strengthened the Company's progress by five positions, making the Company a top member of the International Partnership for Gas Flaring Reduction.



5th 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 future resources will be coming from unconventional, enhanced oil recovery (EOR), heavy oil, offshore and new oil zones that will require the implementation of new technologies and sound strategic, business, and economic assessments. Those opportunities require the development of standardized production forecasting, cost allocation tools that enable economic evaluation, portfolio analysis to prioritize and optimize hydrocarbon resources, and identifying high cost opportunities that can be developed through cost optimization. The newly deployed Corporate Portfolio Management System Project is one of the required initiatives in KOC's 2040 Strategy, which aims to prioritize choosing the best future investment opportunities to develop the Company's assets and to achieve the largest profitable return on investment. This requires an initiative to coordinate the work mechanisms currently in place to establish workflow systems and controls that ensure optimal implementation of the project.

Over the course of the 2021/2022 fiscal year, various settings for such systems were updated to better suit users' needs. In addition, Company employees were trained, and a system usage guide was prepared and shared widely for thorough implementation. Risk record guidelines and a model of the register were also prepared and published for the Heavy Oil Groups for initial testing before application across other Groups throughout the Company.





6th Strategic Objective

Facilitate Technology & Capability Transfer







1. Technologies

Part of the Company's 2040 strategic objectives calls 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 the newly-adopted technologies and knowledge-sharing activities are detailed as follows.

KOC has achieved a new milestone by connecting more than 2,300 wells to the Kuwait Integrated Digital Fields Center (KwIDF), bringing the majority of wells to operation under the umbrella of digital transformation. This achievement has significantly improved the level of operations at wells, increased their production, and reduced processing costs and the time needed to complete different tasks.

In August 2021, Micro-Solution Nano Technology was successfully used in an oil well in West Kuwait, where rock permeability was improved. Production increased by more than 300 barrels of oil per day and costs were reduced by about US \$223,000 (compared to the cost of the traditional method of stimulating production).

In September 2021, the Company successfully launched the WFOptimizer tool, which was developed as part of the Al-Sabriya and Raudhatain field digitization projects in North Kuwait. The tool represents dashboards for underwater reservoirs that integrate surface and groundwater data into a single platform and use advanced data analytics to review injection patterns in the field, which aims to increase production through efficient reservoir management and rapid decision-making.

KOC is characterized by the flexibility of its operations and its openness to adopting the latest technologies that help achieve optimized results. Geochemical petroleum analysis technology was used in West Kuwait (Minagish Field) in December 2021. This new non-traditional technique allows KOC to determine the hydrocarbon layers that lead to production from this reservoir, in addition to enabling the development of a current and future production plan for the reservoir. Production is expected to range from 800-1,200 barrels of light oil per well.

In this context, KOC has been awarded the Best Innovative Project award in the Middle East Energy Competition held in the United Arab Emirates (Dubai) for the Rigless ESP Technology (Zeitec) project. This significant achievement is a pioneering move for KOC, as it allows the Company to pave the way for new horizons in terms of dealing with ESP retrieval, and offers a number of benefits, with the most prominent being a major reduction in the time required for ESP repairs.



2. Human Skills and Capabilities

KOC strives to enhance the skills and unlock the potential of our employees by providing them with an attractive work environment, where we are constantly working toward the improvement of all aspects related to daily work in order to provide employees with the highest levels of job satisfaction. The Company also seeks to recruit Kuwaitis as part of our national employment mandate. The most important achievements made in this regard over the 2021/2022 fiscal year follow.

3. Recruitment and Kuwaitization

One of the most prominent priorities identified by KOC is providing support to Kuwait's youth, enhancing their skills, and providing them with the best job opportunities, whether in the company or with the many contractors we work with in hundreds of contracts in various fields.

The Company places high priority in providing jobs for Kuwaitis as part of the Kuwaitization plan, and encourages Kuwaitis to work outside the government sector. In this context, Kuwait Oil Company has successfully recruited 4,183 employees into the Kuwaitization plan, which amounts to 28.57% for the 2021/22 fiscal year.

KOC has also made considerable efforts to facilitate the recruitment procedures for 366 employees, including 151 newly graduated Kuwaitis and 124 experienced Kuwaitis, bringing the total number of its employees at the end of the fiscal year to 11,075. When considering employees under the Medical and Nursing Authority, the proportion of Kuwaitis reached 81.68% (with the Medical and Nursing Authority) and 89.25% of non-medical and nursing staff.





The Company believes in the importance of the human element and seeks to create a network of Kuwaiti technical workforce through attention to training programs. Training is an essential element that enables Kuwaiti employees to perform their required tasks, and fulfills the needs of contracts in the oil sector to operate the Company's various facilities efficiently.

In coordination with the Public Authority for Applied Education & Training (PAAET), KOC trained approximately 180 students over the past year through several courses including mechanics, electrical maintenance, precision machines, and computer systems..

4. Training & Development

The Training and Development Group was determined to resume its training activities in light of the health restrictions resulting from the outbreak of the global COVID-19 pandemic. The training sector was directly affected, as all activities were initially cancelled until the group was able to reformulate a training policy in line with health instructions for employees under these exceptional circumstances. The policy included the use of various training tools such as direct training programs, self-education, distance learning, and on-the-job training. The most important achievements of the Training & Development Group during the 2021/22 fiscal year include the following:

Future Talent Program

KOC's Future Talent Program was relaunched with a new expansion scheme that covers all Directorates. A total of 145 employees from across the Company participated and completed the program by working in groups on 31 separate projects. The program led to diverse cooperation between participants from different disciplines and backgrounds and ensured the use of all work related qualities. The final event was conducted through four different weekly sessions where participants displayed their projects to the higher management.

Training Campaign for Kuwaiti Nurses

As part of the Memorandum of Understanding between KOC and PAAET-Nursing College, the Company has been providing an opportunity since 2014 for Kuwaiti students in the Nursing College to enroll in its training program that will, upon their successful graduation, provide the graduates with employment at Ahmadi Hospital. This year, KOC successfully signed training contracts with a total of 33 students, both male and female, who hold diploma or bachelor degrees. These students will be carefully monitored each semester to ensure their progress throughout their academic career.

Marine Scholarship Program with KOTC

The Marine Scholarship Program, which was created through the Memorandum of Agreement (MoA) between Kuwait Oil Company and Kuwait Oil Tankers Company (KOTC), provides an opportunity for Kuwaiti high school graduates to study marine disciplines (deck/engine) in the United Kingdom. The program is designed to attract and support young Kuwaitis and enhance their capabilities in order to cover the shortage of manpower in this discipline where graduates will be provided with an immediate job offer upon completion of the program.

This year, KOC and KOTC signed the renewal of the MoA for an additional five years (2021-2026). As a result, KOC published an advertisement for the third scholarship batch. This led to the successful recruitment of 20 new students to study at Glasgow College and Blackpool College starting in March 2022.

Leadership Development Portal

As part of an effort to enhance engagement and experience, the Talent Management Team created and launched the 'Leadership Development Portal' where employees can view and access multiple development tools that are relevant to them online and at their own convenience. Provided courses cover topics such as advanced HSSE that are created specifically to fulfill the leadership level of HSSE requirements. Other topics include Coaching, Mentoring, Assignment, and Team/Group Briefing.

▪ **Interactive Online Development Catalogs**

The Company launched its first 'Interactive Online Development Catalogs which includes the 'KOC Executive Catalog' for the development of its Managers, Team Leaders and TPLs. The catalogs aim to further enrich knowledge and skills in order to assist in handling today's executive and leadership challenges. The Catalogue contains diverse learning and development activities, such as:

- Harvard ManageMentor® Spark access
- Harvard Business Review Magazine
- Quick Coach Videos
- Online Executive Coaching sessions
- Bite-Sized Learning Series
- Webinars & Online Conferences

▪ **UDs and UTs Development Tracking System**

As part of its continuous assessment of new employees work development, KOC created a UD's and UT's Development Tracking System to track Generic Development Activities, which aim to improve the follow-up and track development progress percentages of the targeted group in terms of performance, commitment, and overall attitude. The system allows the Company to obtain data on its new employees and in turn allows KOC to develop advanced training plans that serve employees' actual development needs.

▪ **Upstream 2040 Strategic Initiative:**

The Oil Sector launched the 2040 Strategic Objective with representation from each K-Company in an Admin & Technical Committee. The committee aimed to develop processes and frameworks that help enhance capabilities, knowledge, and expertise in the upstream business to achieve the 2040 Strategic Initiative Upstream Development Capability Transfer. This initiative allows employees in Kuwait's oil sector to gain exposure to international planning and operations, as well as provide the opportunity to develop their abilities to meet the 2040 strategic objectives, through collaboration with KUFPEC regional offices and joint ventures with international companies. As a result of this initiative, three employees were attached and trained in 2021, bringing the total number of trainees to five from last year. The number of trainees is expected to rise to seven in the near future.

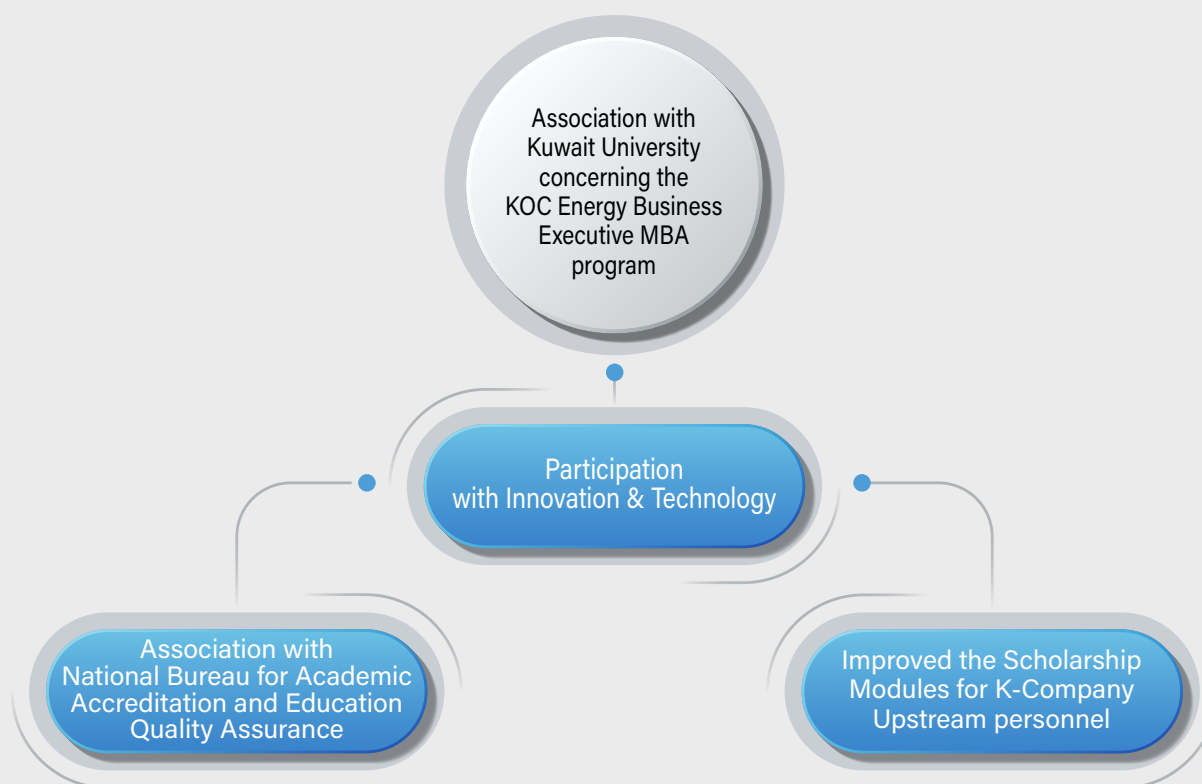


- **KOC Knowledge Capital**

KOC took part in an initiative to build a database of programs that will be developed and delivered by various K-Companies, which will allow employees to benefit from existing knowledge and expertise of TPLs, SMEs, and specialists. These local resources will maximize Kuwait oil sector's capabilities and training opportunities while optimizing costs and minimizing KPC expenses through utilizing the experience of existing senior staff to train employees.

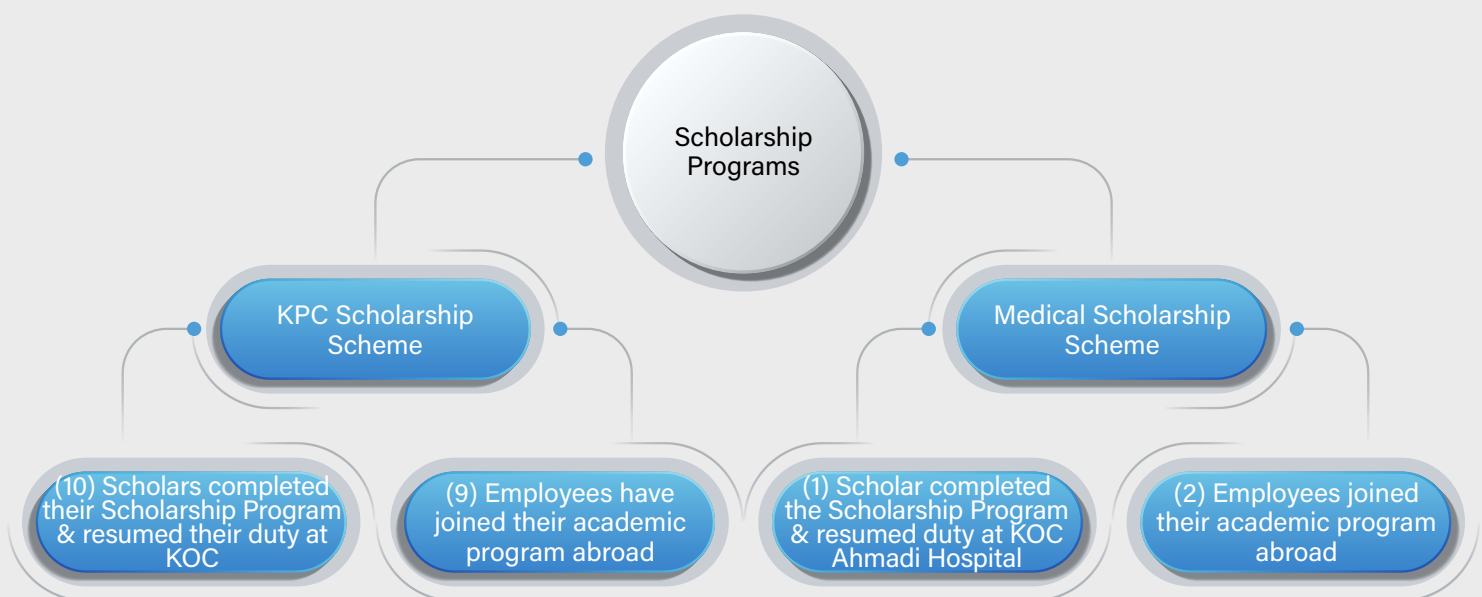
- **Scholarship Programs - Participation with KOC Innovation & Technology Committee**

KOC continued its endeavor to support all academic initiatives that benefit its employees, and has carried out many initiatives aimed at enhancing their capabilities. The Company is also supporting educational institutions in Kuwait by launching educational programs through partnerships with national education bodies. Examples of these programs include developing the KOC Energy Business Executive MBA program, improving the scholarship modules for K-Company upstream personnel and establishing a close relationship with the National Bureau for Academic Accreditation and Education Quality Assurance.



▪ Scholarship Programs

KOC offers two main scholarship programs namely the KPC scholarship scheme, which sends employees to complete their higher education degrees, and the second program is the medical scholarship scheme directed towards the advancement of the Company's medical staff. KOC facilitated the Scholarship Modules with the Medical Group for the medical staff scheme throughout the K-Companies. The Company collaborated with the Kuwait Institution for Medical Specializations – Ministry of Health (KIMS) to improve the university acceptance offer and announcement procedure for future medical scholarship schemes. Under the KPC Scholarship scheme, ten scholars completed their Scholarship Program and resumed their duty at KOC, while nine employees have joined their academic program abroad. Under the medical scholarship scheme, one scholar completed the Scholarship Program and resumed duty at KOC Ahmadi Hospital, while two employees joined their academic program abroad.



7th Strategic Objective

Actively Manage Stakeholders to Satisfy Kuwait's Energy Demands Efficiently





1. Actively Manage Stakeholders

KOC exerts every effort and always strives for excellence and advancement in its performance. This involves active stakeholder management through tight-knit relationships with Kuwait's governmental sectors and active engagement that resulted in various important meetings and agreements as follows:

- KOC and the Kuwait National Guard held the first Joint Committee meeting launched from the signed Cooperation Protocol in October 2021. The meeting was held to discuss procedures and steps aimed at implementing and activating the terms of the agreement to qualify National Guard members for their tasks in securing and protecting oil installations, as well as developing joint contingency response and crisis management plans.
- The Company's Innovation & Technology Group organized a discussion workshop with Kuwait University's Petroleum Engineering Department, which specifically addressed cooperation in the operation of the Kuwait International Petroleum Research Center (KIPRC). The workshop also discussed the activation of cooperation protocols between the two entities, including the technological roadmap for exploration and production, partnership in the fields of research and technology, and the preparation of national research staff to manage and operate the Center. The workshop also discussed the graduate program at Kuwait University, the fields of research and specialization of faculty members in the Department of Petroleum Engineering, as well as efforts to remove any obstacles in the way of cooperation between both parties.
- On the environmental perspective, KOC has been appointed as lead in implementing the Memorandum of Understanding signed between the United Nations Habitat Program (UN-Habitat) and the Kuwait petroleum Corporation & its Subsidiaries. The scope of the memorandum aims at providing a framework for cooperation through which the two sides will work together to contribute to achieving the UN Sustainable Development Goals, in particular cooperating in the activities of combating desertification and sand encroachment toward roads and operational areas, and promoting greening operations in all sites of the Kuwait Petroleum Corporation, its Subsidiaries, and in public areas in the State of Kuwait, as well as launching campaigns in this context and working to cultivate native plants that are beneficial to the environment.
- KOC delivered donated materials to the Public Authority for Applied Education & Training (PAAET) for trainees to use in joint educational programs between the two parties. The materials include machines and equipment that are no longer in use at the Company, which can be great learning tools for students to train on as real-life simulators. Various areas of cooperation between the two sides were also discussed as part of an effort to achieve mutual interest in supporting educational bodies in the State of Kuwait.

- The Company also participated with several government authorities and sector-companies in the “Comprehensive 7” exercise, coordinated by the Kuwait Fire Force, in accordance with plans and protocols with various entities of the State of Kuwait. This exercise was held in order to better respond to any incident or disaster at the national level. The exercise, which featured the participation of 27 official bodies in the country, was an opportunity for the Company to demonstrate its capabilities in responding to emergencies and dealing with major incidents, as well as supporting government agencies in all matters related to emergency response. The exercise also witnessed the first participation of the Company’s helicopters, which supported government agencies in reconnaissance, damage assessment, and evacuation procedures.



2. Contribute to Enterprise and State

- In addition to being the largest contributor to the country's economy, KOC has always provided support to various State agencies and companies operating in Kuwait. In this regard, the Company provided the Library of the National Council for Culture, Arts and Literature with a large number of books from different periods spanning from the 1940s to the 1970s. The Public Relations Team delivered nearly 1,000 books to the library in order to enrich its content, through a visit by a delegation from the Team to the National Council.
- Also, in support of the Ministry of Health's efforts to combat the COVID-19 pandemic, the Company made all facilities of the Old Ahmadi Hospital (Southwell Hospital) available to the management of Adan Hospital in order to receive and treat patients. This step comes in the context of the constant cooperation with the Ministry of Health, which has yielded many pioneering and successful projects and initiatives.
- As part of its social responsibility efforts, which aim to address the shortage of Kuwaiti manpower in the nursing field, KOC encouraged Kuwaiti students to take up this profession by signing a Memorandum of Understanding between KOC and the Public Authority for Applied Education and Training. KOC launched a recruitment announcement for the Faculty of Nursing for the 2021/22 fiscal year, which attracted 600 applicants. The campaign targets new nursing college students with whom KOC will sign contracts for employment at Ahmadi Hospital after graduation.
- In order to maintain the Abdaliya water wells, and because of the growing demand for water supplies, the Ministry of Public Works repurposed treated water for various uses. The entire project was completed using reusable or available materials, and all work was carried out within the Company, resulting in cost saving of 6 million KD.
- KOC was awarded two Global Business Outlook awards in 2021 in the categories of Best Oil & Gas Exploration & Production Company, and Best Crisis Response Management (Response & Awareness Initiatives – COVID-19). This reflects the Company's international position in the field of social responsibility, as well as its focus on remaining a reliable supplier of energy to the world. This achievement is a recognition by Global Business Outlook of KOC's recent efforts to complete and start a number of major exploration and production projects, most notably the heavy oil project, which is one of the largest in the Middle East.





KOC's Aspirations to Meet Strategic Objectives for 2022/2023

By continuing to implement projects to increase the production capacity of crude oil in accordance with strategic trends, the Company looks forward to continuing the implementation of water treatment projects and raising reservoir pressure in order to contribute to raising the production capacity. Several initiatives are under process to achieve these strategic aspirations, which include the following:

- Accompanying water removal projects in South & East Kuwait.
- Continuing construction work of Gathering Center-32 in order to address the production of acid oil from a reservoir in Burgan field.
- Implementing an intensive drilling program to develop newly explored oil reservoirs.
- Focusing on water treatment, handling, and injection operations for reservoirs to increase their production's capacity.
- Sustaining and increasing Non-Associated Gas Production from 500 Million to 1 Billion Cubic Feet Per Day, by improving the productivity of the three Jurassic Production Facilities, in addition to continuing development of the fourth and fifth facilities by this fiscal year.
- Starting the implementation of the offshore drilling project as part of the onshore and offshore exploration operations to support the Company's production capacity.
- Continuing to compensate the produced quantities of oil and gas by adding new oil reserves by not less than 100% to ensure the sustainability of production.
- Supplying Al-Zour Refinery project with the required quantities of heavy oil and Kuwaiti export oil.
- Implementing initiatives to reduce expenditures for capital and operating budgets.
- Improving and developing production methods using the best available modern technologies in order to develop the Company's capabilities in the use of EOR through the implementation of pilot projects.
- Continuing to reduce gas flaring to 1% throughout KOC's facilities.

KOC is determined to continue to overcome the challenges associated with the Company's extensive areas of operation, as illustrated in this report. As such, we have no doubt that we will continue to achieve new milestones and maintain Kuwait's position as a regional and global pioneer in the Oil and Gas industry.

Financial Report

Financial statements and independent auditor's report for the year ending March 31, 2022





Contents





Independent auditor's report	55
Statement of financial position	58
Statement of profit or loss and other comprehensive income	59
Statement of changes in equity	60
Statement of cash flows	61
Notes to the financial statements	62



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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 2022, 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 2022, 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 2022 that might have had a material effect on the business of the Company or on its financial position.

A handwritten signature in blue ink, appearing to read 'Safi A. Al-Mutawa', written over a horizontal line.

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


Kuwait: 28 April 2022


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

Statement of financial position
as at 31 March 2022

	Note	2022 KD'000	2021 KD'000
Assets			
Property, plant and equipment	5	16,079,961	15,421,601
Right-of-use assets	6	748,717	784,845
Intangible assets	7	146,464	74,980
Construction inventories	8	266,036	288,455
Receivable from Parent Company	10	15,094	15,094
Non-current assets		<u>17,256,272</u>	<u>16,584,975</u>
Consumable inventories	8	123,720	118,265
Advances and other receivables	9	207,121	217,668
Amounts due from group companies	16 (b)	33,589	47,764
Cash and cash equivalents	11	15,766	12,967
Current assets		<u>380,196</u>	<u>396,664</u>
Total assets		<u>17,636,468</u>	<u>16,981,639</u>
Equity			
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
Total equity		<u>2,160,073</u>	<u>2,160,073</u>
Liabilities			
Due to Parent Company, net	10	12,061,492	12,050,480
Post-employment benefits	13	726,104	692,267
Lease liabilities	6	595,338	648,807
Non-current liabilities		<u>13,382,934</u>	<u>13,391,554</u>
Accounts payable and other liabilities	14	1,290,039	1,124,929
Lease liabilities	6	267,764	289,685
Dividend payable	15	535,658	15,398
Current liabilities		<u>2,093,461</u>	<u>1,430,012</u>
Total liabilities		<u>15,476,395</u>	<u>14,821,566</u>
Total equity and liabilities		<u>17,636,468</u>	<u>16,981,639</u>

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


 Sanad Hemaidi Al- Sanad
 Chairman


 Khalid Nayef Al-Otaibi
 Acting 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 2022

	Note	2022 KD'000	2021 KD'000
Revenue:			
Revenue (net of royalty, levy and marketing fees)	17	3,957,112	1,986,400
Operating cost (cost of production):			
Contract services		(647,676)	(658,713)
Employee cost		(721,468)	(704,032)
Material cost		(85,183)	(68,872)
Depreciation, amortization and write off	5,6&7	(622,366)	(561,902)
Total operating cost	18	(2,076,693)	(1,993,519)
Other operating income	19	27,075	33,806
Recoverable costs	20	139,022	139,733
Cost of production		(1,910,596)	(1,819,980)
Gross profit		2,046,516	166,420
General and administrative expenses	21	(127,355)	(103,192)
Net operating profit		1,919,161	63,228
Interest expense	6	(6,081)	(8,205)
Interest income		24	13
Directors' remuneration	22	(42)	(42)
Net profit before contribution to shareholder		1,913,062	54,994
Contribution to the shareholder	23	(1,377,404)	(39,596)
Net profit and total comprehensive income for the year (transferable to Parent Company)	15	535,658	15,398

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 2022**

	Share capital KD'000	Shareholder's current account KD'000	Statutory reserve KD'000	Retained earnings KD'000	Total KD'000
Balance at 1 April 2020	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
Transactions with owner of the Company, recognized directly in the equity					
Distribution to owner of the Company (note 15)	-	-	-	(15,398)	(15,398)
Balance at 31 March 2021	<u>30,188</u>	<u>2,114,791</u>	<u>15,094</u>	<u>-</u>	<u>2,160,073</u>
Balance at 1 April 2021	30,188	2,114,791	15,094	-	2,160,073
Net profit	-	-	-	535,658	535,658
Total comprehensive income for the year	-	-	-	535,658	535,658
Transactions with owner of the Company, recognized directly in the equity					
Distribution to owner of the Company (note 15)	-	-	-	(535,658)	(535,658)
Balance at 31 March 2022	<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 2022

	Note	2022 KD'000	2021 KD'000
Cash flows from operating activities			
Net profit		535,658	15,398
<i>Adjustments for:</i>			
Abortive drilling expenditure		691	2,515
Interest expense	6	6,081	8,205
Provision for obsolete and slow moving inventories		(929)	4,555
Depreciation, amortization and write off	5,6&7	622,366	561,902
Contribution to the shareholder	10	1,377,404	39,596
Provision for post employment benefits	13	73,659	56,821
		<u>2,614,930</u>	<u>688,992</u>
<i>Changes in:</i>			
- consumable inventories		(4,526)	(8,657)
- advances and other receivables		10,547	124,597
- receivable from the Parent Company	10	(3,957,112)	(1,986,400)
- other movements in the Parent Company balances	10	14,327	(13,014)
- accounts with group companies		14,175	3,992
- accounts payable and other liabilities		165,110	(3)
Cash used in operations		<u>(1,142,549)</u>	<u>(1,190,493)</u>
Post employment benefits paid	13	<u>(39,822)</u>	<u>(31,863)</u>
<i>Net cash used in operating activities</i>		<u>(1,182,371)</u>	<u>(1,222,356)</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment	5&6	(927,652)	(1,149,036)
Acquisition of intangible assets	7	(78,689)	(1,391)
Abortive drilling		(691)	(2,515)
Changes in construction inventories		22,419	(64,021)
<i>Net cash used in investing activities</i>		<u>(984,613)</u>	<u>(1,216,963)</u>
Cash flows from financing activities			
Payment of lease liabilities including interest	6	(391,212)	(338,260)
Funding from the Parent Company	10	2,560,995	2,781,811
<i>Net cash generated from financing activities</i>		<u>2,169,783</u>	<u>2,443,551</u>
Net change in cash and cash equivalents		2,799	4,232
Cash and cash equivalents at beginning of the year		12,967	8,735
Cash and cash equivalents at end of the year	11	<u><u>15,766</u></u>	<u><u>12,967</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 2022

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 28 April 2022 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.

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

Notes to the financial statements
for the year ended 31 March 2022

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

The below amendment to standards and interpretations became effective on 1 January 2021, but it does not have material effect on the Company’s financial statements:

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (“IBOR”) is replaced with an alternative nearly risk-free interest rate (“RFR”).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

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.

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

Notes to the financial statements
for the year ended 31 March 2022

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.

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.

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

Notes to the financial statements
for the year ended 31 March 2022

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:

<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.

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

Notes to the financial statements
for the year ended 31 March 2022

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.

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.

Kuwait Oil Company K.S.C.
State of Kuwait**Notes to the financial statements**
for the year ended 31 March 2022

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).

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

Notes to the financial statements
for the year ended 31 March 2022

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.

Kuwait Oil Company K.S.C.
State of Kuwait**Notes to the financial statements**
for the year ended 31 March 2022

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.

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

Notes to the financial statements
for the year ended 31 March 2022

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:

Kuwait Oil Company K.S.C.
State of Kuwait**Notes to the financial statements**
*for the year ended 31 March 2022***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.

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

Notes to the financial statements
for the year ended 31 March 2022

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.

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

Notes to the financial statements
for the year ended 31 March 2022

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

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

- IFRS 17 – Insurance Contracts;
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current;
- Reference to the Conceptual Framework – Amendments to IFRS 3;
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37;
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter;
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities;
- IAS 41 Agriculture – Taxation in fair value measurements;
- Definition of Accounting Estimates - Amendments to IAS 8;
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2.

The new standards and amendments are not expected to have a material impact on the Company's consolidated 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.

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

Notes to the financial statements
for the year ended 31 March 2022

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.

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.

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

**Notes to the financial statements
for the year ended 31 March 2022**

5. Property, plant and equipment

31 March 2022	Oil and gas properties						Other property, plant and equipment				Capital work in progress	
	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)	Drilling, exploration and other assets under construction (KD'000)	Total (KD'000)
Cost												
At 1 April 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
Additions to capital work in progress	-	-	-	-	-	-	-	-	-	-	1,168,498	1,168,498
Transfer from capital work in progress	359,984	209,696	235,929	2,405	-	-	87,745	-	-	29,341	(925,100)	-
Internal transfers	(1)	3,276	-	1	-	-	(3,276)	-	-	-	-	-
Write off	(30,571)	(12,148)	-	(1,976)	-	(2,789)	(395)	(470)	(18,203)	(1,208)	-	(67,760)
At 31 March 2022	3,259,207	2,834,823	6,467,038	76,229	1,800	109,825	1,003,759	4,413	15,519	103,960	8,224,584	22,101,157
Accumulated depreciation and impairment losses												
At 1 April 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
Charge for the year	88,059	97,624	254,877	3,759	-	6,950	37,582	331	540	13,120	-	502,842
Internal transfers	(1)	2,403	-	1	-	-	(2,403)	-	-	-	-	-
Write off	(26,035)	(9,568)	-	(1,974)	-	(2,717)	(289)	(470)	(18,203)	(1,208)	-	(60,464)
At 31 March 2022	1,511,556	1,233,891	2,715,245	68,526	1,800	57,065	360,356	3,178	14,043	55,536	-	6,021,196
Carrying value												
At 31 March 2022	1,747,651	1,600,932	3,751,793	7,703	-	52,760	643,403	1,235	1,476	48,424	8,224,584	16,079,961

Exploration and evaluation costs included under drilling, exploration and other assets under construction amounted to KD 22,900 thousands (31 March 2021: KD 29,123 thousands).

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

**Notes to the financial statements
for the year ended 31 March 2022**

5 Property, plant and equipment (continued)

31 March 2021	Oil and gas properties						Other property, plant and equipment			Capital work in progress		
	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)	Drilling, exploration and other assets under construction (KD'000)	Total (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

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

Notes to the financial statements
for the year ended 31 March 2022

6. Leases

	Right of use of assets			
	Rigs	Heavy	Motor	Total
31 March 2022	(KD'000)	equipment	vehicles and	(KD'000)
		(KD'000)	helicopters	
			(KD'000)	
Cost				
At 1 April 2021	1,437,631	10,669	14,060	1,462,360
Additions	287,488	560	-	288,048
At 31 March 2022	<u>1,725,119</u>	<u>11,229</u>	<u>14,060</u>	<u>1,750,408</u>
Accumulated depreciation and impairment losses				
At 1 April 2021	666,048	5,091	6,376	677,515
Charged to profit and loss	99,208	2,761	3,054	105,023
Charged to capital work in progress	219,153	-	-	219,153
At 31 March 2022	<u>984,409</u>	<u>7,852</u>	<u>9,430</u>	<u>1,001,691</u>
Carrying value				
At 31 March 2022	<u>740,710</u>	<u>3,377</u>	<u>4,630</u>	<u>748,717</u>
31 March 2021				
	Rigs	Heavy	Motor	Total
	(KD'000)	equipment	vehicles and	(KD'000)
		(KD'000)	helicopters	
			(KD'000)	
Cost				
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>
Accumulated depreciation and impairment losses				
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>
Carrying value				
At 31 March 2021	<u>771,583</u>	<u>5,578</u>	<u>7,684</u>	<u>784,845</u>

Amounts recognised in profit or loss

	31 March 2022	31 March 2021
	KD'000	KD'000
Expense relating to short term leases	67,023	76,806
Expense relating to leases of low value assets	14,139	14,563

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

Notes to the financial statements
for the year ended 31 March 2022

	Lease liabilities	
	2022	2021
	KD'000	KD'000
As at 1 April	938,492	980,285
Additions	288,048	263,092
Finance cost charged to profit and loss	6,081	8,205
Finance cost capitalized	21,693	25,170
Lease payments	<u>(391,212)</u>	<u>(338,260)</u>
As at 31 March	<u>863,102</u>	<u>938,492</u>

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

	Lease liabilities	
	2022	2021
	KD'000	KD'000
Current lease liability	267,764	289,685
Non-current lease liability	<u>595,338</u>	<u>648,807</u>
As at 31 March	<u>863,102</u>	<u>938,492</u>

7. Intangible assets

31 March 2022	Seismic surveys	Others	Total
	KD'000	KD'000	KD'000
Cost			
As at 1 April 2021	161,734	5,462	167,196
Additions during the year	78,689	-	78,689
At 31 March 2022	<u>240,423</u>	<u>5,462</u>	<u>245,885</u>
Accumulated amortization and impairment losses			
At 1 April 2021	86,754	5,462	92,216
Amortised during the year	7,205	-	7,205
At 31 March 2022	<u>93,959</u>	<u>5,462</u>	<u>99,421</u>
Net book value			
At 31 March 2022	<u>146,464</u>	<u>-</u>	<u>146,464</u>

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

Notes to the financial statements
for the year ended 31 March 2022

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

8. Inventories

	2022 KD'000	2021 KD'000
Inventories at cost	397,591	415,484
Provision for obsolete and slow-moving items	(7,835)	(8,764)
	<u>389,756</u>	<u>406,720</u>
<i>Classified in statement of financial position as:</i>		
Construction inventories	266,036	288,455
Consumable inventories	123,720	118,265
	<u>389,756</u>	<u>406,720</u>

9. Advances and other receivables

	2022 KD'000	2021 KD'000
Advances to contractors	104,397	161,258
Prepaid expenses	2,480	261
Staff advances	32,906	29,501
Other receivables	71,152	30,462
Less: Expected credit loss	(3,814)	(3,814)
	<u>207,121</u>	<u>217,668</u>

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

Notes to the financial statements
for the year ended 31 March 2022

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:

	2022	2021
	KD'000	KD'000
At 1 April	12,050,480	10,832,001
Net revenue receivables (note 17)	(3,957,112)	(1,986,400)
Net funds transfer	2,560,995	2,781,811
Dividend distributed (note 15)	15,398	396,486
Contribution to shareholder (note 23)	1,377,404	39,596
Other movements	14,327	(13,014)
At 31 March	<u>12,061,492</u>	<u>12,050,480</u>
Non-current receivables		
Receivable from Parent Company (relating to transfer of statutory reserve)	(15,094)	(15,094)
	<u>12,046,398</u>	<u>12,035,386</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

	2022	2021
	KD'000	KD'000
Cash in hand	19	17
Cash at bank	15,747	12,950
	<u>15,766</u>	<u>12,967</u>

12. Equity

Share capital

The authorized, issued and fully paid up share capital of the Company comprises of 30,188,291 (31 March 2021: 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.

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.

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

Notes to the financial statements
for the year ended 31 March 2022

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

	2022	2021
	KD'000	KD'000
Balance at beginning of the year	692,267	667,309
Charge for post-employment benefits	73,659	56,821
Payments made during the year	<u>(39,822)</u>	<u>(31,863)</u>
Balance at end of the year	<u>726,104</u>	<u>692,267</u>

14. Accounts payable and other liabilities

	2022	2021
	KD'000	KD'000
Accounts payable	430,372	382,766
Contractor and suppliers retentions	274,858	253,586
Liquidated damages	418,091	322,121
Staff payables	117,869	105,523
Accrued expenses	15,276	46,525
Others	<u>33,573</u>	<u>14,408</u>
	<u>1,290,039</u>	<u>1,124,929</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:

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.

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

Notes to the financial statements
for the year ended 31 March 2022

- ii. All of the Company's net revenue for the year amounted to KD 3,957,112 thousand (31 March 2021: KD 1,986,400 thousand) represent net sales by the Parent Company (note 17).
- iii. Training costs charged by the Parent Company amounted to KD 5,123 thousand (31 March 2021: KD 1,505 thousand) (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

	2022	2021
	KD'000	KD'000
Salaries and other employee benefits	1,094	1,075
<i>b) Balances with related parties under the common control of the Parent Company:</i>		
	2022	2021
	KD'000	KD'000
Due from group companies:		
Kuwait National Petroleum Company K.S.C.	18,477	26,861
Kuwait Oil Tanker Company S.A.K.	5,677	7,919
Kuwait Foreign Petroleum Exploration Company K.S.C.	159	607
Kuwait Aviation Fueling Company K.S.C.	103	158
Petrochemical Industries Company K.S.C.	1,927	4,284
Kuwait Petroleum International Limited	312	221
Kuwait Gulf Oil Company K.S.C. (Closed)	2,107	3,945
Oil Sector Services Company K.S.C. (Closed)	58	76
Kuwait Integrated Petroleum Industries Company	4,769	3,693
	<u>33,589</u>	<u>47,764</u>

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:

	2022	2021
	KD'000	KD'000
Gross revenue	21,048,465	10,565,960
Royalty	(4,209,693)	(2,113,192)
Fiscal levy	(12,460,691)	(6,255,049)
Marketing fee	(420,969)	(211,319)
Net revenue (note 10)	<u>3,957,112</u>	<u>1,986,400</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 3,450,853 thousands (2021: KD 1,939,072 thousand) and KD 506,259 thousands (2021: KD 47,328 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.

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

Notes to the financial statements
for the year ended 31 March 2022

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:

	Note	2022 KD'000	2021 KD'000
Total operating cost		2,076,693	1,993,519
Add: General and administration expenses	21	127,338	103,192
Less: Other operating income	19	<u>(27,075)</u>	<u>(33,806)</u>
Total cost		<u>2,176,956</u>	<u>2,062,905</u>

19. Other operating income

	2022 KD'000	2021 KD'000
Port fees	19,949	19,600
Other income	<u>7,126</u>	<u>14,206</u>
	<u>27,075</u>	<u>33,806</u>

20. Recoverable costs

	2022 KD'000	2021 KD'000
Kuwait National Petroleum Company K.S.C.	20,542	23,934
Kuwait Gulf Oil Company K.S.C.	1,336	670
Kuwait Petroleum Corporation	643	441
Kuwait Integrated Petroleum Industries Company K.S.C.C.	61	45
Kuwait Foreign Petroleum Exploration Company K.S.C.	-	9
Kuwait Oil Tanker Company S.A.K.	11	187
Group companies for medical services	<u>116,429</u>	<u>114,447</u>
	<u>139,022</u>	<u>139,733</u>

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

21. General and administrative expenses

	2022 KD'000	2021 KD'000
Utilities	83,252	56,192
Training costs (note 16)	5,123	1,505
Insurance	10,675	9,619
Medical costs	22,251	22,163
Others	<u>6,054</u>	<u>13,713</u>
	<u>127,355</u>	<u>103,192</u>

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

Notes to the financial statements
for the year ended 31 March 2022

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 2021: 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.

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.

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

Notes to the financial statements
for the year ended 31 March 2022

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

	2022	2021
	KD'000	KD'000
Receivable from the Parent Company	15,094	15,094
Advances and other receivables	100,244	56,149
Amounts due from group companies	33,589	47,764
Cash and bank balances	15,747	12,950
	<u>164,674</u>	<u>131,957</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.

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

Notes to the financial statements
for the year ended 31 March 2022

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, except lease liability.

25. 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.

26. 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.

27. Commitments and contingencies

Commitments for future capital expenditure in relation to lump sum contracts and purchase orders amounted to KD 871 million (31 March 2021: KD 1,026 million).

**Kuwait Oil Company K.S.C.
State of Kuwait****Notes to the financial statements
for the year ended 31 March 2022**

28. 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.

29. 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. During the current year the Parent Company has informed that there will be no further claim expected to be received.

30. COVID-19 Update

The outbreak of Novel Coronavirus (COVID-19) continues to progress and evolve. While COVID-19 is a health crisis, it has caused socioeconomic disruption on a global scale. More countries have imposed travel bans on millions of people, and more people in more locations are placed with quarantine measures. The restrictions were lifted in some jurisdictions at the end of the year 2021.

The management of the Company has considered the potential impact of the current economic downturn and volatility on the reported amounts of the Company's assets and liabilities and considered these to represent best assessment based on available or observable information.

The management of the Company continues to monitor the situation and its impact on the Company's operation and financial position. As at the reporting date, the prevailing market conditions remain volatile and the amounts recorded in the financial statements remain sensitive to market fluctuations. The impact of such uncertain economic environment is judgmental, and the Company will continue to re-assess its position and the related impact on regular basis.