ANNUAL REPORT

2014

Dr Manssour Aboukhamseen
Chairman

"Our vision to be one of the largest E&P companies in the Middle East was demonstrated in 2014 by our largest discovery in Block 9 and our commitment to operational excellence."

Drilling operations in Block 9

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Sara Akbar
Chief Executive Officer

"2014 was the most successful year in Kuwait Energy since establishment. We made our largest discovery in Block 9, yielding large reserves & resources that elevated the scale of the Company."

WHO WE ARE

Kuwait Energy ('the Group' or the 'Company') is an independent oil and gas entity actively engaged in the exploration, appraisal, development and production of hydrocarbons. Since establishment in 2005, we have built a high-quality, diversified portfolio of oil and gas assets in the MENA region.

Our MENA portfolio consists of 12 exploration, development and production assets across Egypt, Iraq, Yemen and Oman, of which we operate seven assets. We currently have production in Egypt, Yemen and Oman.

Our 2P working interest reserves are approximately 671 mmboe as at 31 December 2014. Our 2C working interest resources are 759 mmboe as at 31 December 2014. Our total average daily working interest production was 25,252 boepd during 2014.

With a main office in Kuwait, Kuwait Energy has area offices in Cairo, Sana'a, Baghdad and Basra.

Our Vision

To be the pre-eminent Middle East-based independent oil and gas company.

Our Mission

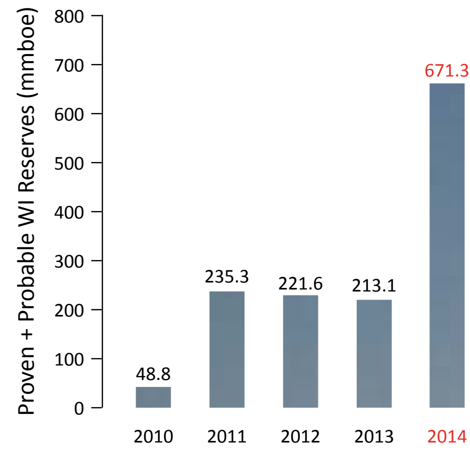
To develop and manage oil and gas assets in the interest of our stakeholders.

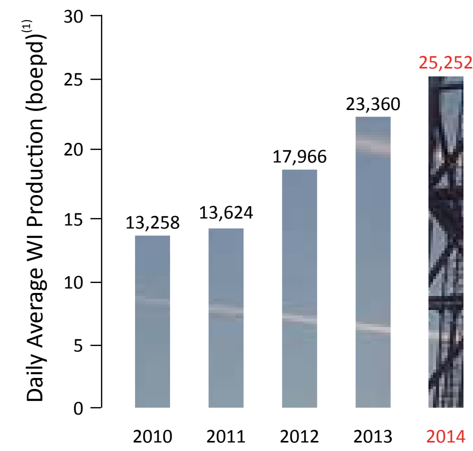
Unique access to growth opportunities through regional relationships

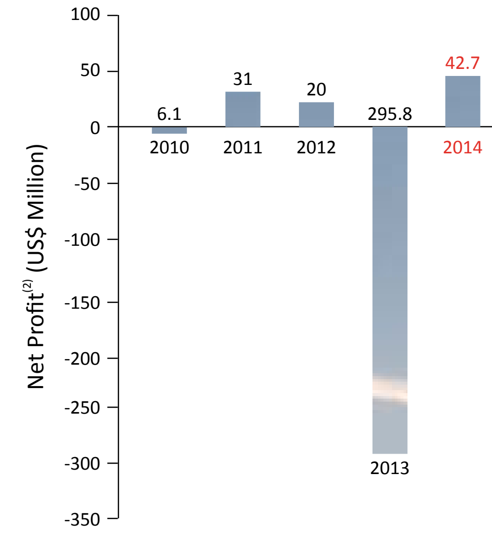
We have built strong relationships with national oil and gas companies in the MENA region. In the context of these relationships, we provide valuable technical expertise, advice and assistance to national oil and gas companies, and local governments, on oil and gas projects that are important to these countries' economic development.

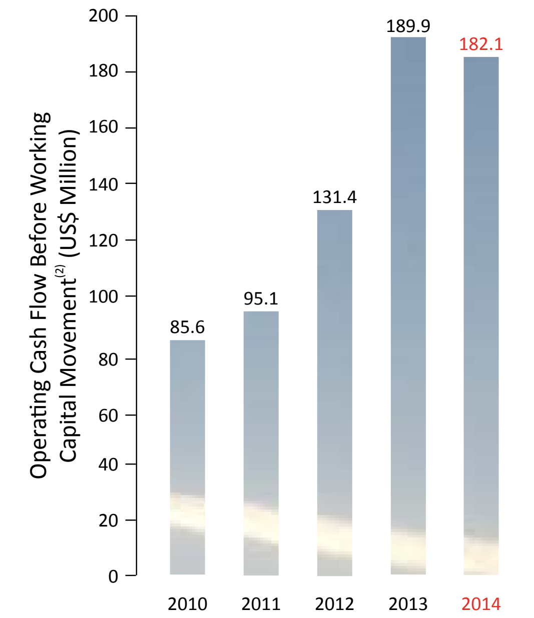
The natural landscape of the Basrah area

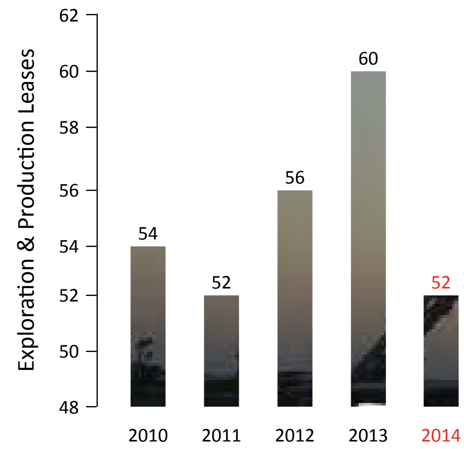
Kuwait Energy Key Figures

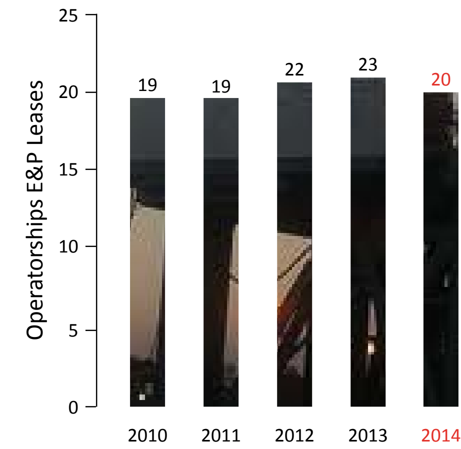


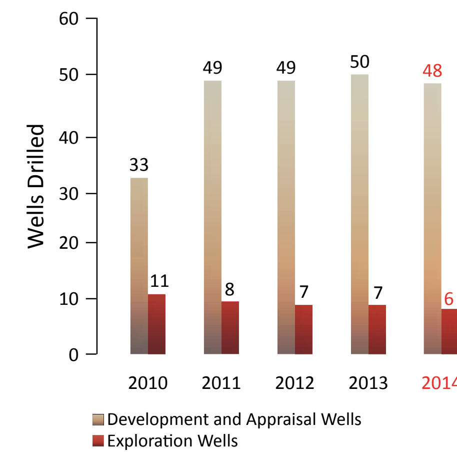


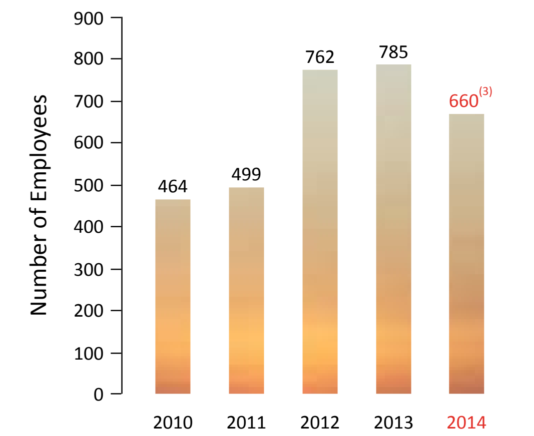












1. *Includes production from assets in Russia and Ukraine that were sold in 2014.*

2. *Financial comparatives have been restated (see Note 2 of the Financial Statement). As in 2014, the Group retrospectively adopted IFRS 11 Joint Arrangements and changed its accounting policy for intangible exploration and evaluation assets from 'modified full cost method' to a 'successful efforts method'. Results of 2010 and 2011 further restated to separately show the results of Russia and Ukraine operations, both considered to represent discontinued operations. Reserves and production numbers are not restated for discontinued operations. Assets in Ukraine were sold in April 2014 and assets in Russia were sold in November 2014.*
3. *Number of employees dropped by year-end 2014 due to the sale of assets in Ukraine and Russia.*

Roger Phillips
Chief Financial Officer

"We are proud to achieve record results in sales revenue and net profit for 2014."

Block 9 rig lit at dusk

Kuwait Energy Major Milestones

Month	Milestones
April 2014	Sale of Ukraine assets
July 2014	**Block 9 farm-out, Iraq** Kuwait Energy entered into an agreement to farm-out a 10% participating interest in the Block 9 service contract, which shall be completed in 2015.
August 2014	**High yield bond** Kuwait Energy received a credit rating of B- from both Fitch and Standard & Poor's. This allowed the Group to issue Senior Guaranteed Notes at a yield of 9.5% due in 2019. As a result, Kuwait Energy raised US$ 250 million in bonds.
October 2014	**First oil discovery in Block 9, Iraq** The discovery was at the first target, the Mishrif formation at 2,700 metres, in its Block 9 exploration well, 'Faihaa-1X'. Preliminary tests of the Faihaa-1X Mishrif formation resulted in a flow rate of circa 2,000 bopd of 20 API oil on 32/64 inch choke. **Discovery at Abu Sennan, Egypt** The exploration well ASA-1 ST 3 on the Abu Sennan license, onshore Egypt discovered hydrocarbons in the Abu Roash 'E' and 'C' formations. The well was tested successfully over the Abu Roash 'E' and Abu Roash 'C' reservoirs, with flow rates achieved of 1,604 bopd and 2,164 bopd respectively. Successful completion of the appraisal of the El Salmiya-6 well. The test results from the primary target, Kharita Sandstone, are 2,750 bopd and 9.7 mmscf/d of gas on ¾ inch choke.
November 2014	Sale of Russia assets
December 2014	**Discovery at East Ras Qattara, Egypt** Shahd-4 well on the East Ras Qattara development lease, located in the Northern Western Desert onshore Egypt, discovered hydrocarbons in the Wadi El Natrun formation (Jurassic formation). Tests of this formation achieved flow rates of 1,275 bpd of condensate with 51 API and 12.5 mmscf/d of gas on choke 32/64 inch choke; and 2,400 bpd of condensate and 25 mmscf/d on choke 64/64 inch choke. It is the first time that the Jurassic formation has been proven to be a hydrocarbon producer in the East Tiba Half Graben sedimentary basin. **Second oil discovery in Block 9, Iraq** Another discovery was at the second target, the Yamama formation at 4,000 metres, in Block 9 exploration well, 'Faihaa-1X', located in Northern Basra, Iraq. Preliminary tests of the Faihaa-X1 Yamama formation resulted in oil flow rates of circa 5,000 and 8,000 bopd of 35 API crude on 32/64 inch choke and 64/64 inch chokes respectively.

Dr Manssour Aboukhamseen
Chairman

Executive Chairman's Statement

On behalf of my Board colleagues, I am delighted to present the Group's annual report as at 31 December 2014. During the year, Kuwait Energy achieved record levels of production, reserves and resources volumes, revenue and net profit. In addition, we made our largest hydrocarbon discovery to date in Block 9, which is considered the largest discovery in Iraq in the last 10 years based on public information sources[1].

Strategy

We remain committed to our vision to focus our business operations in the MENA region, where we are able to leverage our existing track record, knowledge and expertise.

On that front, we successfully exited from both Ukraine and Russia during the course of 2014 as part of our portfolio rationalisation strategy. We are now focusing our activities on the large and diversified reserves base that is in Egypt, Iraq and Yemen. Our vision to be one of the largest E&P companies in the Middle East is demonstrated by our largest discovery in Block 9 and our commitment to operational excellence.

Developing our Iraq projects will be our core focus following the recent discovery in our Block 9 asset.

We continue our business operations adhering to a high level of HSSE and corporate governance standards. We continue to monitor our portfolio to achieve a balanced mix of assets at production, development, appraisal and exploration stages.

Financial

In 2014, Kuwait Energy delivered record sales revenue of US$ 270.8 million. This constitutes a 3% increase over 2013 as a result of larger production volumes from all of the Group's Egyptian assets and a considerable 40% increase since the Group began operations in 2006 – despite the recent collapse of oil prices since June 2014.

The record net profit of US$ 42.7 million in 2014 represents a significant turnaround from 2013's financial results for which the Group took a decision to record losses from the discontinued operations in Ukraine and Russia. The 2014 results include a US$ 19.2 million impairment charge in relation to Yemen due to the fall in oil prices.

This resulted in the recovery of the earnings per share, which is 13.0 US cents up from (91.0) US cents in 2013.

The Group's total assets stood at US$ 935.5 million as at 31 December 2014 compared to US$ 791.1 million as at 31 December 2013, representing approximately an 18% increase from 2013. The Group's total equity was US$ 416.5 million as at 31 December 2014 compared to US$ 370.2 million as at 31 December 2013, representing approximately a 13% increase from 2013.

The Group continued to focus on collecting the money owed by its major customer in Egypt, the Egyptian General Petroleum Corporation (EGPC), as evidenced by the significant amount collected during 2014 of US$ 263.2 million.

The Group's cash flow from operations was US$ 182.1 million in 2014 compared to US$ 189.9 million in 2013. The Group maintained a healthy cash position as at 31 December 2014 of US$ 216 million compared to US$ 127.6 million as at 31 December 2013, representing an increase of 69% from 2013.

In 2014, Kuwait Energy received a credit rating of B- from both Fitch and Standard & Poor's. This allowed the Group to issue Senior Guaranteed Notes at a yield of 9.5% due in 2019. As a result, Kuwait Energy raised US$250 million in bonds. The Bond was successfully completed in six weeks, which is considered record time. The Notes are currently traded on the Irish Stock Exchange's Global Exchange Market.

As oil prices look set to remain low throughout 2015, the Group has ensured that its financial position remains stable through active cash flow management and capital spending optimisation.

We have adopted IFRS 11 Joint Arrangements and changed our accounting policy for intangible exploration and evaluation assets from "modified full cost method" to "successful efforts method". The historical financial figures in this report have been restated accordingly.

1. Wood Mackenzie

Operations

2014's record production for the MENA region was at an average of 24,500 boepd. The total average production was 25,252 boepd compared to 23,360 boepd for 2013.

This increase is primarily the result of our assets in Egypt, mainly the East Ras Qattara and Abu Sennan concessions.

In Iraq, we continue to work towards the development of Siba field. The recent discovery in Block 9 added substantial reserves and resources potential to the Group.

Our certified proven and probable working interest reserves at year-end 2014 was 671 mmboe, which is a substantial increase on last year's year-end reserves that stood at 213 mmboe representing an increase of 215% and considered to be the largest certified proven and probable working interest reserves in the Company's history, mainly from Block 9, Iraq.

Governance and Sustainability

We continuously review our policies to ensure our business remains compliant with the highest standards of corporate governance to which the Board is committed. We therefore continue to work towards full compliance with the principles and provisions of the UK Corporate Governance Code, as well as follow best practice in health and safety.

In 2014, we updated and improved our emergency procedures for all operational areas in Egypt, Yemen and Iraq. In Iraq's Siba and Block 9 fields, we completed environmental impact studies, allowing us to develop projects that are socially and environmentally sustainable.

At Kuwait Energy, we believe strongly that we have a duty to enrich lives in the diverse areas where we operate – beyond employment and other commercial opportunities we create. From support for youth development projects and micro-finance programmes in Egypt, to helping displaced families in Iraq and deprived families in Yemen, we strived to make a true difference in 2014.

Outlook

We continue focusing our efforts on large projects in Iraq, eyeing the completion of the Siba gas project and fast tracking the development of Block 9 since the major discovery made there.

In addition, we continue our operations in Egypt and Yemen while carefully monitoring oil price movements and adjusting our work plans and capital expenditure accordingly to invest strategically across our assets. In addition, we continue monitoring the security and political situation in Yemen.

We also continue our efforts to create liquidity events for our shareholders by exploring various options.

I would like to thank everyone at Kuwait Energy for their continued dedication and support which remains key to achieving our vision 'to become the pre-eminent Middle East-based oil and gas company'.

Dr Manssour Aboukhamseen
Executive Chairman

Board Of Directors

Dr Manssour Aboukhamseen is the Executive Chairman of the Board, and is also a member of the Nomination Committee.

Dr Aboukhamseen is a successful business entrepreneur, leader and founder of several successful business enterprises in Kuwait. He has over 25 years of experience in the oil and gas industry in Kuwait Oil Company (KOC), Zahra Group Holding and Kuwait Energy.

He has a Ph.D. in Modern History from the University of California at Berkeley.

Sara Akbar is the Chief Executive Officer and a member of the Board.

She is a renowned professional and personality in the oil and gas industry, both in Kuwait and internationally. She has over 30 years' experience in the oil and gas industry, having worked in several challenging positions in Kuwait Oil Company (KOC) and Kuwait Foreign Petroleum Exploration Company (KUFPEC).

Sara Akbar has a B.Sc. in Chemical Engineering from Kuwait University.

Roger Phillips is the Chief Financial Officer and a member of the Board.

Mr Phillips has over 30 years' experience in the oil and gas industry primarily in international, upstream finance roles.

He joined Price Waterhouse and qualified as a Chartered Accountant before pursuing oil industry finance roles with companies such as ExxonMobil and Amerada Hess.

Mr Phillips was with Amerada Hess for nearly twenty years where he served as Vice President and Director in London and New York. Before joining Kuwait Energy, Mr Phillips was Finance Director at Regal Petroleum plc between 2004 and 2007.

Roger Phillips is a Chartered Accountant.

Dr Yousef Al Awadi is a Non-Executive Director on the Board, and is also the Chairman of the Audit and Risk Committee and a member of the Remuneration Committee.

Dr Al Awadi is the Chief Executive of YAA Consultancy, Kuwait. He has previously held and currently holds Board directorships on several government and private sector entities in the financial, industrial and real estate sectors, both in Kuwait and internationally. He was formerly the President and Chief Executive Officer of Kuwait Investment Office. He was also the Chief General Manager and CEO of Gulf Bank, Kuwait.

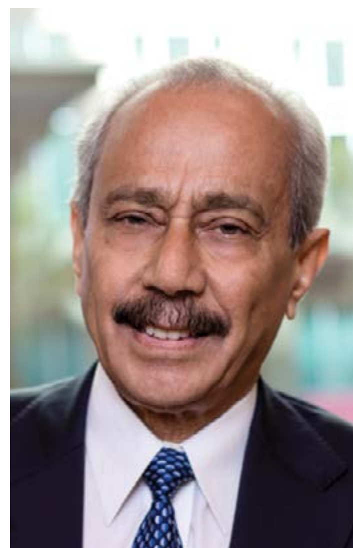
Dr Al Awadi has a BA from the American University of Beirut and an MA and Ph.D. in Economics from the University of Colorado, USA.

In 2004, he was awarded the Honorary Knight Commander of the Most Excellent Order of the British Empire, KBE.

Rachel English is an Independent Non-Executive Director on the Board of Kuwait Energy, and is also the Chairman of the Remuneration Committee and a member of the Audit and Risk Committee.

She has some 30 years' international experience in blue-chip energy companies. Rachel is currently also a Non-Executive Director of African Barrick Gold plc, Global Carbon Capture and Storage Institute Ltd, is on the Audit Committee of the UK Department for International Development, and is a Director of Helios Social Enterprise.

She has an MA from the University of Oxford and is a Fellow of the Institute of Chartered Accountants in England and Wales.



Mohamed Yusof Rafie is an Independent Non-Executive Director on the Board of Kuwait Energy and is also the Chairman of the Nomination Committee and a member of the Remuneration Committee.

He has previously worked in Saudi Aramco, where he held a number of positions. Mohamed is also currently the Chairman of Industrialization & Energy Services Company (TAQA), Chairman of Arabian Drilling Company (ADC) and a member of the National Committee for World Petroleum Congress. He was previously Chairman of Aramco Gulf Operations Company.

Mohammad Ahmad Husain is an Independent Non-Executive Director on the Board of Kuwait Energy and a member of the Audit and Risk Committee.

He has served as the President and Chief Executive Officer of EQUATE Petrochemical Company since April 2012. He is a member of the board of directors of MEGlobal.

In the past he also served as a board member of EQUATE, the Kuwait Olefins Company, Kuwait Oil Company and Kuwait National Petroleum Company. Mr Husain has over 32 years' administrative and technical experience in the Kuwait oil and gas industry, with competencies in upstream oil and gas, petroleum affairs, gas operations, petrochemical industry, corporate planning and strategy development. Mr Husain is a member of the Society of Petroleum Engineers and the Society of Strategic Leadership. He has a B.Sc. in Petroleum Engineering from the University of Tulsa, USA.

Sir Steve Robson is an Independent Non-executive Director and a Senior Independent Director on the Board of Kuwait Energy. He is a member of the Audit and Risk Committee and a member of the Nomination Committee.

He served as a Non-Executive Director of Xstrata plc from February 2002 to May 2013.

Sir Steve served the UK's HM Treasury for 30 years in a number of roles. He was responsible for HM Treasury's interests in industry, transport and energy policies.

He has a B.A. and Ph.D. from the University of Cambridge, England and an M.A. from Stanford University, USA. He is a member of the Financial Reporting Council and the KPMG Chairman's Advisory Board and is the Chairman of KPMG's Public Interest Committee.

Abdel F. (Abby) Badwi is an Independent Non-Executive Director on the Board of Kuwait Energy and a member of the Remuneration Committee and a member of the Nomination Committee.

Mr Badwi is the Vice Chairman of Bankers Petroleum Ltd., where he served as President and Chief Executive from 2008 to 2013.

He is a petroleum industry executive with more than 40 years' upstream experience internationally. He previously served as President, Chief Executive Officer and director of Rally Energy Corp, as well as President of Corundum Energy Ltd. He has a B.Sc. in Geology from the University of Alexandria, Egypt and is a member of the Association of Professional Engineers and Geoscientists of Alberta (APEGA).

Mohamed Aboush
Deputy CEO

"In Iraq's Siba and Block 9 fields, we completed environmental impact studies that allow us to develop projects that are socially and environmentally sustainable."

Monitoring the drilling operation of Faihaa-1X well

Kuwait Energy Assets

As at 31 December 2014

Region	Licence	Cost WI (%)	Revenue WI (%)[1]	Operator	Status
Iraq	Siba	60.00%	45.00%	Kuwait Energy	Awaiting development with exploration potential (ADEP)
	Mansuriya	30.00%	22.50%	TPAO	ADEP
	Block 9	70.00% [2]	70.00% [2]	Kuwait Energy	ADEP
Egypt	Area A	70.00%	70.00%	Kuwait Energy	Producing asset with exploration potential (PAEP)
	Abu Sennan	78.00%	50.00%	Kuwait Energy	PAEP
	Burj El Arab (BEA)	75.00%	75.00%	Kuwait Energy	PAEP
	East Ras Qattara (ERQ)	49.50%	49.50%	Sipetrol	PAEP
Yemen	Block 5	15.00%	15.00%	Kuwait Energy	PAEP
	Block 43	33.33%	28.33%	DNO	PAEP
	Block 49	75.29%	64.00%	Kuwait Energy	Exploration asset (EA)
	Block 82	25.00%	21.25%	Medco	EA
Oman	Karim Small Fields (KSF)	15.00%	15.00%	Medco	PAEP
Pakistan	Jherruck	40.00%	40.00%	NHEPL	EA
	Kunri	40.00%	40.00%	NHEPL	EA
Latvia	License 1-2004 [3]	50.00%	45.00%	SIA Balin	EA
	License 1-2009 [3]	50.00%	45.00%	SIA Balin	EA

1. *Revenue working interest is the percentage interest of the Group in the revenues derived from sale of production from an asset, before taking into account any taxes, fees, royalties or other payments.*
2. *Pursuant to a farm-out arrangement entered into with EGPC for a 10% working interest share in Block 9, Kuwait Energy's cost working interest and revenue working interest in Block 9 will be reduced to 60% upon the fulfilment of certain conditions precedent, including written approval from the Iraqi government.*
3. *In the process of being relinquished.*

Note: Kuwait Energy holds interests in Block 35 in Yemen and Block E in Cambodia, which are awaiting final confirmations of relinquishment from the respective governments.

Sara Akbar
Chief Executive Officer

Chief Executive Officer's Report

It is once again with great pleasure that I report on Kuwait Energy's operational and financial highlights for 2014.

2014 was the most successful year in Kuwait Energy since establishment. We made our largest discovery in Block 9, yielding large reserves & resources that elevated the scale of the Company in terms of volume.

We are proud of our operational and financial performance. In 2014, we have achieved record production, revenue and net profit post a challenging year in 2013 during which the Board took a strategic decision to exit Russia and Ukraine and accordingly we booked impairment as a result of the discontinued operations.

We have consolidated our portfolio to focus on the MENA region where our core expertise and competency can be leveraged as part of our strategic view as a Group. We have now benefited from this focus which has translated into our operational and financial performance for the year 2014. I would like to share with you here highlights of our accomplishments:

- We drilled 48 development and appraisal wells in Oman, Egypt and Iraq.
- We drilled six exploration wells, four of which led to significant discoveries. Specifically, Faihaa-1X well in Block 9 in Iraq is considered the largest discovery there in the last 10 years[1] and three wells at Abu Sennan in Egypt have yielded commercial volumes.
- Our record average production for 2014 was 25,252 boepd of which 24,484 boepd was from the MENA region.
- We added substantial volumes to our certified 2P reserves due to the discovery in Block 9, which contributed to an increase of 215% compared to 2013.
- We delivered record revenue of US$ 270.8 million.
- Our net profit was US$ 42.7 million despite the collapse of oil prices since June 2014 and the impairment on Yemen Block 5.
- We generated an operating cash flow of US$ 182.1 million.
- We maintained a healthy cash and cash equivalent closing of US$ 216 million as at 31 December 2014.
- We improved our access to capital through raising US$ 250 million in bonds in a record time.

Going forward, we have large-scale projects in Iraq on which we intend to focus, specifically the Siba gas project and fast-tracking the development of Block 9, which is adjacent to large oil fields and nearby existing infrastructure facilities. Our service contracts in Iraq, where revenue is based on remuneration fee and is independent of oil prices, provide future cash flows immune to oil price volatility keeping into consideration that our remuneration fees are the highest for Iraq contracts[2].

As part of our business strategy, we genuinely believe that our people are our most important asset and we are deeply committed to their on-going development in order to deliver technical and operational excellence. Towards the end of 2014, we adopted a change in our organisational structure that would support our business growth plans and large scale projects in Iraq.

We remain committed to serve the communities in which we operate, as we consider it part of our mission statement to work for the benefit of our stakeholders. We also strive to achieve the highest standards of HSSE, integrity, compliance and corporate governance.

1. Source: Wood Mackenzie
2. Source: Republic of Iraq Ministry of Oil

Ahmed Haidar
SVP Production & Development

"Block 9 is adjacent to super giant oil fields and near existing infrastructure, making it a prized asset."

Site Operations in Block 9

Financial And Operations Highlights

	Units	2013[1]	2014
Financial Performance			
Sales revenue	US$ million	262.5	270.8
Cost of sales	US$ million	128.2	140.5
Operating cash flow	US$ million	189.9	182.1
Net profit/(loss)	US$ million	(295.8)	42.7
Capital Expenditure			
Property, Plant & Equipment	US$ million	229.0	209.3
Exploration & Evaluation Assets	US$ million	80.7	56.8
Total Capital Expenditures	US$ million	309.7	266.1
Financial Position			
Total Assets	US$ million	791.1	935.5
Debt	US$ million	277.1	360.3
Total Equity	US$ million	370.2	416.5
Earnings / (loss) per Share	US cents	(91.0)	13.0
Reserves and Production			
Average Daily WI Production	Boepd	23,360	25,252
Proven & Probable WI Reserves[2]	Mmboe	213.1	671.3
Total Wells Drilled			
Exploration	Number of wells	7	6
Development & Appraisal	Number of wells	50	48

1. *Financial comparatives have been restated (see Note 2 of the Financial Statements). As in 2014, the Group retrospectively adopted IFRS 11 Joint Arrangements and changed its accounting policy for intangible exploration and evaluation assets from 'modified full cost method' to a 'successful efforts method'.*
2. *Reserve estimates are Kuwait Energy working interest and are certified by GCA.*

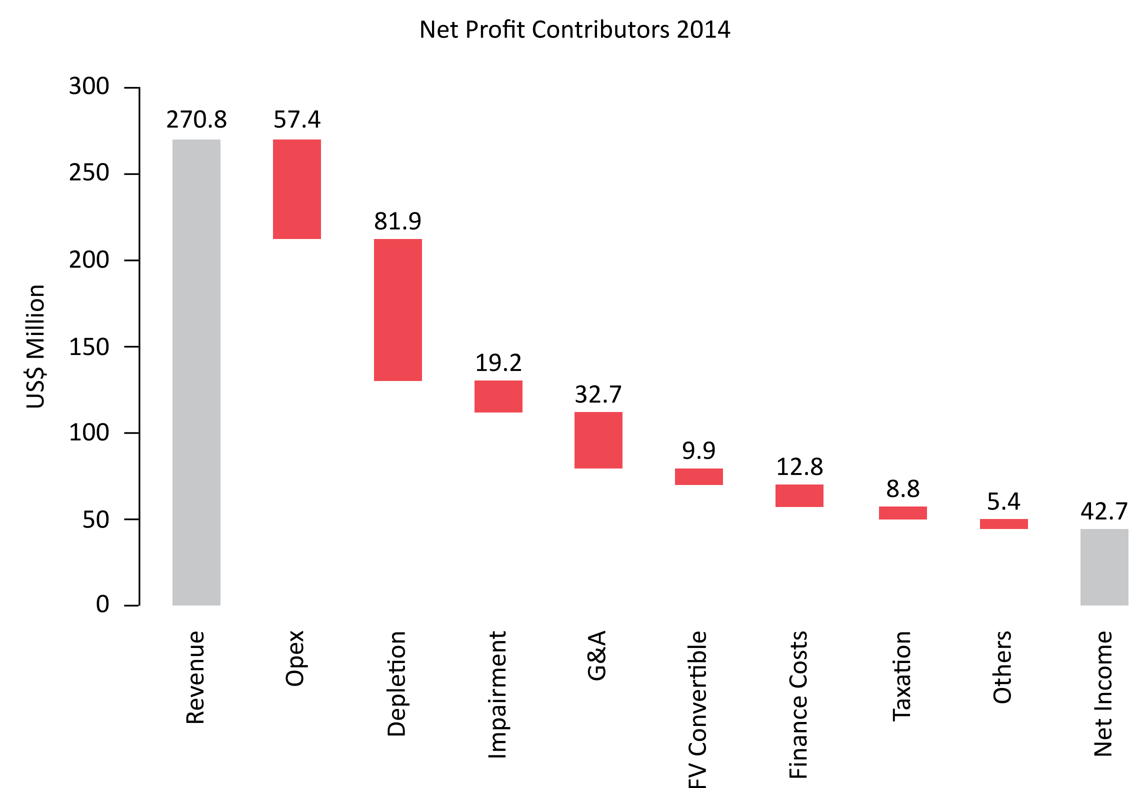
Financial Performance

Kuwait Energy reported record annual results in sales revenue and net profit for 2014.

2014 financial highlights:

- Record sales revenue of US$ 270.8 million, up 3% from 2013.
- Record net profit of US$ 42.7 million.
- Operating cash flow of US$ 182.1 million, down 5% from 2013, primarily due to oil price.
- Issued US$ 250 million senior guaranteed notes.
- Credit rating of B- by Fitch and Standards & Poor's.

In 2014, Kuwait Energy delivered record sales revenue of US$ 270.8 million, 3% higher than 2013 as a result of increased production in all of the Group's Egyptian assets and offset partly by a decrease in average realised price of the product. This resulted in a record net profit after tax of US$ 42.7 million for 2014, a significant turnaround from 2013 when the Eurasia assets were 'held for sale' with an overall net loss of US$ 295.8 million.



Others include exploration expenditure written off, loss for the year from discontinued operations, foreign exchange loss offset by other income, share in results of joint venture and movement in stock. In per barrel of oil terms, the revenue equated to 95.5 US$ /boe with operating costs of 7.3 US$ /bbl and G&A costs of 4.2US$ /boe.

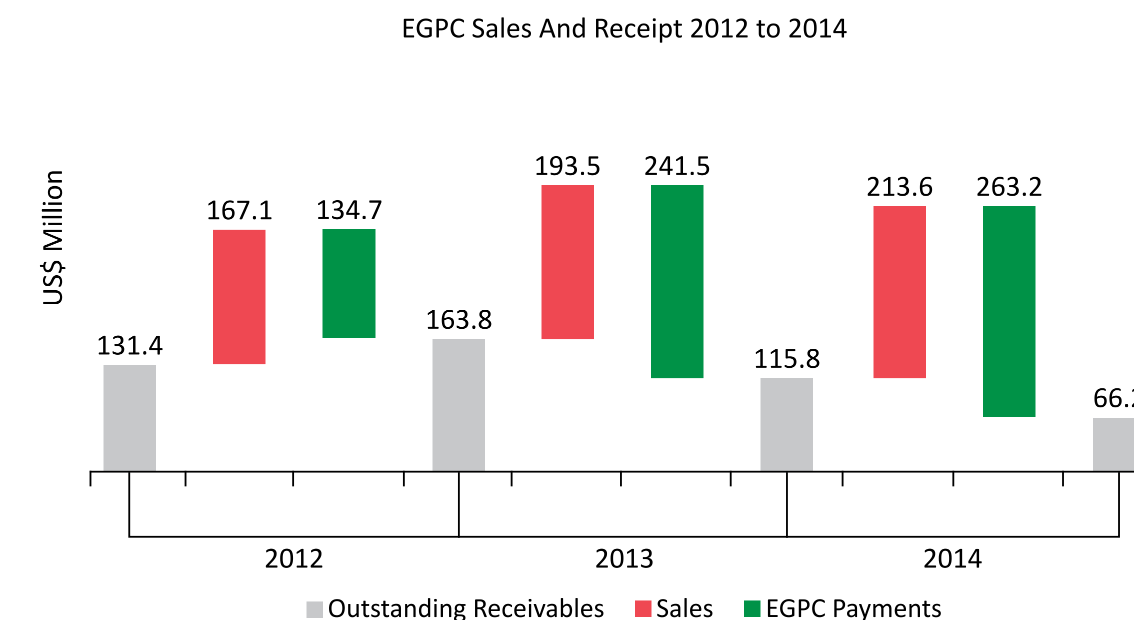
An impairment charge of US$ 19.2 million arose due to the steep fall in oil prices in the second half of 2014 and relates to Block 5 license in Yemen. Operations at Block 5 continued but were sometimes disrupted during 2014 due to tribal and regional unrest. We continue to take steps to protect our license interest, as described further in note 14 and 33 of the consolidated financial statements.

During 2014, Kuwait Energy has voluntarily changed its accounting policy for oil and gas exploration and evaluation expenditure from the 'modified full cost method' to the 'successful efforts method' to better reflect the performance of the Group and to align with the more prevalent method of accounting for oil and gas assets within its peer group. Prior years' accounts have been restated based on the 'successful efforts method'.

Kuwait Energy generated an operating cash flow before working capital movements of US$ 182.1 million in 2014 with US$ 216.0 million in cash and cash equivalents as at 31 December 2014. In August 2014, the Group issued US$ 250 million aggregate principal amount of its 9.5% senior guaranteed notes ("The Notes") listed on the Irish Stock Exchange due in 2019. Part of the proceeds of the Notes has been used to repay in full the amounts outstanding under the Reserve Based Facilities and the Arab Bank Facility. Remaining proceeds, after fees, are being used to fund capital expenditure of the Group, particularly in respect of its assets in Iraq and for general corporate purposes.

In 2014, Kuwait Energy total capital expenditure was US$ 266.1 million, which was primarily spent on the Siba gas plant construction and the drilling of 48 development and appraisal wells, and six exploration wells. Kuwait Energy continued to focus on collecting money owed by its major customer in Egypt, EGPC, as evidenced by the significant amounts collected during the year 2014 of US$ 263.2 million.

The chart below presents movements in Kuwait Energy's receivables from EGPC from 2012 to 2014.



Majid Hussain
Iraq Country Office President

"Developing our Iraq projects will be our core focus following the recent discovery in our Block 9 asset."

The majestic blue sky over Faihaa-1X rig

Operations Performance

Production

Kuwait Energy achieved an 8% year-on-year production increase in 2014, with an average daily working interest up from 23,360 boepd in 2013 to 25,252 boepd. This increase is primarily the result of the successful development and outstanding performance of existing Shahd wells in Egypt's ERQ concession.

Egypt continued to be a major contributor to 2014's production, with a daily average working interest production of 17,483 boepd. This accounted for 69% of the Group's production – an increase of 20% from 2013. The country's two major contributing assets were ERQ and Area A, which delivered a daily working interest average production of 10,990 boepd and 4,419 boepd respectively.

In addition to Egypt's contribution, assets in Yemen delivered 4,457 boepd daily average working interest production. This was despite Block 5 being shut down for a total of 34 days, due to disruption to the main export pipeline.

Development Activities

- 48 development and appraisal wells were spudded in 2014 – including Siba-4, the first well Kuwait Energy has drilled in Iraq.
- Significant progress was achieved constructing facilities in Siba, Iraq and a gas pipeline in Abu Sennan, Egypt.
- Licence status in Egypt is as follows:
  - ERQ: Shahd-SE and Diaa development leases extended.
  - Abu Sennan: 25% of leases relinquished.

During the year, 48 development and appraisal wells were spudded, including 34 in Oman, 13 in Egypt and one in Iraq. The most successful development wells were Shahd SE-8 and Shahd SE-9 in ERQ, Egypt, which delivered an average gross production rate of 4,200 boepd and 3,300 boepd respectively. Good oil rates were also initially achieved at the El Salmiya and Al Jahraa wells in Abu Sennan, Egypt, although both fields are currently restricted due to high associated gas ratios (GOR).

In Egypt's Area A, the drilling and testing of the SHNW-10 well resulted in a 600 bopd rate which was twice that was expected. This confirms the strong potential of the Shukheir North West field that we will be further investigating.

In Block 5, Yemen, we suspended our drilling and completions campaign due to work stoppages caused by local tribes and general regional unrest. Despite these interruptions, crude oil shipping was stable throughout the year, with the exception of asset shutdown in May 2014.

Going forward, the operational activities will be geared towards Iraq projects: Siba gas field and Block 9 fast track developments. These are in addition to development projects in Egypt and Yemen.

Hashim Al-Adnani
Project Director Block 9

"Faihaa-1X exploration well is considered a giant oil field by world standards."

Kuwait Energy staff and contractors at the Block 9 site

Production Summary

Asset	2013 Production Daily WI average (boepd)	2014 Production Daily WI average (boepd)	Percentage Change
Abu Sennan	445	932	109%
BEA	882	1,142	29%
Area A	4,351	4,419	2%
ERQ	8,876	10,990	24%
Egypt Total	14,553	17,483	20%
Block 5	4,185	4,092	-2%
Block 43	532	365	-31%
Yemen Total	4,717	4,457	-6%
KSF – Oman	2,628	2,544	-3%
BC (1)	246	82	-67%
NY (1)	19	0	-100%
JAA 429 (1)	419	81	-81%
Ukraine Total	684	163	-76%
Luzskoye (2)	778	604	-22%
Russia Total	778	604	-22%
Kuwait Energy Total	23,360	25,252	8%

1. *Ukrainian assets sold April 2014.*
2. *Russian assets sold November 2014.*

Kuwait Energy Reserves & Resources

Classification	Category	Kuwait Energy Reserves and Resources (in mmboe)						
		YE13	2014 Production	Exploration Adds	Revisions	Acquisitions & Divestments	YE14	YE14 Net Entitlement
Reserves	1P	90.5		169.3	6.8	-0.1	259.0	68.8
	2P	213.1	-7.5	509.2	3.2	-46.6	671.3	108.7
	3P	300.7		1,038.4	-6.1	-93.5	1,232.0	152.8
Contingent Resources	2C	853.0		0.0	-92.9	-0.7	759.4	
Prospective Resources	Best	37.1		0.0	2.7	-8.1	31.6	

Total	YE14		YE13
	1P RRR =	2337%	1P RRR = 61%
	2P RRR =	6186%	2P RRR = -16%

Notes:
1. *Certified figures by GCA.*
2. *Excludes KSF (Oman) which cannot be included in external reserves reporting as per contract.*
3. *Reserves Replacement Ratio considers acquisitions and divestment.*
4. *Prospective Resources estimates are risked.*
5. *N/E stands for Net Entitlement.*
6. *Totals may not exactly equal the sum of the individual entries due to rounding.*
7. *Ukraine and Russia were divested in 2014.*
8. *2014 production is based on actuals up to November 2014 and an estimate for December 2014.*

Detailed Reserves & Resources by Asset

Asset	WI Reserves and Resources (mmboe)			
	Country	1P	2P	2C
Burg El Arab	Egypt	0.6	5.0	10.5
Area A	Egypt	3.0	12.1	-
Abu Sennan	Egypt	0.9	3.4	-
ERQ	Egypt	6.4	11.5	-
Block 43	Yemen	-	-	0.1
Block 5	Yemen	3.3	4.2	8.3
KSF	Oman	-	-	-
Siba	Iraq	30.0	58.1	12.2
Mansuriya	Iraq	46.4	69.6	8.4
Block 9	Iraq	168.4	507.5	708.0
Block 49	Yemen	-	-	11.7
Block 82	Yemen	-	-	-
Total		259.0	671.3	759.4

Notes:
1. *Certified figures by GCA.*
2. *KSF (Oman) which cannot be included in external reserves reporting as per contract.*

Exploration Activities

- Six exploration wells were spudded in 2014 resulting in four discoveries.
- Block 9, Faihaa-1X well in Iraq is the country's largest oil discovery in the last 10 years.
- Three exploration discoveries in Abu Sennan, Egypt.
- The Shahd-4 development well at ERQ, Egypt with a deeper exploration target resulted in gas discovery tested at 25 mmboe.
- 509.2 mmboe proven plus probable working interest reserves added post the discovery in Block 9.

Exploration Drilling

2014's programme included drilling five exploration wells in Egypt and one in Iraq – the first exploration drilling by Kuwait Energy in that country. Four out of the six exploration wells discovered commercial hydrocarbons. One of them in Burg El Arab, Egypt, failed to encounter hydrocarbons in the exploration targets but was later recompleted to produce from an already known development zone.

World class giant oil field discoveries were made at the Faihaa-1X exploration well in Iraq, Block 9. The first, in October 2014 in the Mishrif formation, resulted in a flow rate of circa 2,000 BOPD on 32/64 inch choke. The second discovery followed shortly afterwards in December 2014 in the Yamama formation, resulting in oil flow rates of circa 8,000 BOPD on 64/64 inch choke. The asset is adjacent to super giant oil fields, largely de-risked and near existing infrastructure. Early production and further appraisal drilling are planned for 2015/16.

In Abu Sennan, Egypt, a number of discoveries disclosed more commercial volumes accumulated in the Abu Roash and Kharita formations. The Alam El Bueib formation, which is highly productive in the region was also successfully discovered and tested via the ASH-1X exploration well.

In addition to the six exploration wells, the Shahd-4 development well was drilled in East Ras Qattara, Egypt, with a deeper Jurassic exploration target. This resulted in an exploration discovery from the Wadi Al Narun formation, and was tested with 25 mmscf/d on maximum choke size with condensate to gas ratio 95 bbl/mmscf. This confirmed the potential of the rich condensate Jurassic accumulations across the whole concession area.

The Group's five-year exploration success rate is 46%* from 2010 to 2014 inclusive. The finding cost per barrel was 0.47 US$/boe* over the same five-year period.

*Figures are subjected for further revision in 2015 to accommodate results of ASH-1X discovery.

Geology, Geophysical and Engineering Studies

Iraq

In the Siba field, we acquired 280 sq. km of 3D seismic data and processed it for Pre-Stack Time Migration ('PSTM'). Interpretation of the processed seismic volume and integration with the appraisal well data is now under way. The Siba-4 appraisal well has been drilled to the target depth and is being completed.

In Block 9, Faihaa-X1, an exploratory well is currently carrying out a coring operation within the Yamama formation. Earlier, a shallower reservoir in the Mishrif formation was also extensively cored in this well. Drilling results have so far been highly encouraging and we are currently updating production forecasts for the field with new well test results and latest volumetrics.

Egypt

Efforts are underway in the Yusr field to understand the impact of water flooding. A 3D static sector model was completed for the North Yusr field during the year and simulation is also currently in progress.

We are conducting a comprehensive programme to screen all wells in Egypt for work over potential to optimise production performance.

Yemen

In Block 49, we completed the acquisition and processing of 240 sq. km of 3D seismic data and are currently interpreting the final processed volume.

In Block 82, seismic work is being carried out to acquire about 280 km of high density 2D data.

In Block 5 in the Al-Nasr field, we completed a 3D static model and simulation is currently in progress. We are also conducting a comprehensive programme to screen all wells in Al-Nasr for work over potential to optimise the field performance.

Overall

Kuwait Energy continues to employ the latest and most appropriate software, data interpretation and management tools to handle its growing technical challenges and database needs. It has also successfully mapped the competencies of its employees within the Technology department and the rest of the organisation. This exercise will prove useful for designing employee skills development and incorporating training courses and conferences.

Ebrahem Abdullah
Project Director Siba

“We have developed best practice health and safety policies and procedures to ensure an efficient and safe working environment for all our employees.”

Medical assistance always at hand at Block 9

Health, Safety, Sustainability and Environment

HSSE is of the highest importance to us at Kuwait Energy. We have developed best practice health and safety policies and procedures to ensure an efficient, safe working environment for all our employees at both our operated and non-operated assets.

Where Kuwait Energy is the operator, we apply and closely monitor HSSE standards in all fields, with risk control measures in place to ensure incident-free operations. At assets where we are not the operator, we closely monitor our joint venture partners’ performance and adherence to HSSE policies and procedures.

HSSE Highlights 2014

- **Successfully passed the first surveillance audit for Kuwait Energy’s Egypt Cairo office and Area A operations**
  Conducted by the International Standards Certification (ISC – audit firm in Egypt), this process successfully verified OHSAS 18001 and ISO 14001 Certificates previously awarded in 2012.
- **Updated HSE emergency procedures for all operational areas**

  These HSE emergency preparedness plans were reviewed and improved for all operated areas in Egypt, Yemen and Iraq.
- **Upgraded SH-NW fire fighting network**

  This included the installation and commissioning of a standard fire fighting network plant in SH-NW process station in Egypt’s Area A.
- **Issued HAZOP and HSSE philosophy studies for the upcoming Central Production Facilities (CPF) in the Siba Field.**
- **Environmental Baseline Study (EBS) and Environmental Impact Assessment (EIA)**

  A study of the Siba Field and Block 9 were completed and approved by Iraq’s South Oil Company (SOC).

HSSE Milestones

- In Egypt, we achieved more than a million and a half kilometres (1,523,401 km) of zero Motor Vehicle Incidents.
- All stated HSSE objectives were met in 2014 – with Kuwait Energy-operated areas achieving figures for Total Recordable Incidents Frequency Rate (TRIFR) and Lost Time Incidents’ Frequency Rate (LTIFR) of 0.77 and 0.62 respectively.
- 2014’s drilling and work-over campaign in Egypt was completed with zero Lost Time In Incidents (LTI).

	Days without Lost Time Incidents as at 31 December 2014	Years
Egypt	567	1.5
Yemen	88	0.2
Iraq	85	0.2

Corporate Social Responsibility

Enriching Our Communities

At Kuwait Energy, we believe strongly that we are part of every community in which we work. We have a duty to enrich lives in the diverse areas where we operate – beyond the employment and other commercial opportunities we create.

From support for youth development projects and micro-finance programmes to supplies for disadvantaged communities, here are just some of the ways in which we helped make a difference in 2014.

Egypt

Technical support for the American Association of Petroleum Geologists (AAPG)

As part of helping younger professionals and students get ahead, Kuwait Energy Egypt invited members of the AAPG Suez chapter to present papers on water flooding and intelligent well completion. There were two lucky winners for each topic – with each awarded technical training from an oil and gas skills training provider plus a month's training and development with us during the summer.

Sponsorship of the SPE and AAPG student chapters and magazine

We established an extended active partnership with the student chapters of the Society of Petroleum Engineers (SPE) and American Association of Petroleum Geologists (AAPG) – both at Suez Canal University – and the Society of Exploration Geophysicists (SEG) at Benha University. As well as being the main academic partner for each, we also offer financial and other practical support for which we are recognised in the societies' semi-annual magazines 'ECHO' by the SPE and 'Petro Pulse' by the AAPG.

Technical sessions for student chapters of SPE, AAPG and SEG

Kuwait Energy's operations engineers shared their expertise at a full-day technical session held on Thursday 8 May 2014 at the Sofitel Maadi. Focused on hydraulic fracturing and directional drilling, the session welcomed student chapter members of the SPE and AAPG from Suez Canal University and the Society of Exploration Geophysicists (SEG) at Benha University.

Micro-financing small projects

Small businesses need sound beginnings to grow and prosper – with initial funding often a difficult challenge. This innovative project, operated in collaboration with the El Orman Foundation, offers micro-finance loans to Egyptians entrepreneurs to change and improve lives by:

- Reducing long-term unemployment amongst jobless Egyptians and promoting entrepreneurship.
- Encouraging a culture of contributing to economic growth by developing professional careers.

Youth development in Ras Gharib

The project aims to empower up to 75 underprivileged young people aged 7-15 years – encouraging them to reach their potential and build a bright, successful future.

The young people involved are now benefiting from:

- Financial aid to create a better living environment, improve education and develop talent.
- Having a platform to express themselves through art and drawing, and develop their abilities.
- Protection from child labour, abuse in unfit jobs and the effects of being deprived of education.
- Encouragement to commit to education – reducing the possibility of leaving early for the sake of money.

Raising women's awareness in Ras Gharib

The project aims to enhance the quality of life for illiterate women through awareness and educational sessions. By teaching the women a range of basic skills to improve their confidence and positively impact their families and personal life, the initiative can help reduce the possibility of failed marriages and divorce.

Internships for SPE and AAPG students

Kuwait Energy provided learning opportunities through its internship programme to students of the Society of Petroleum Engineers (SPE), Suez Canal University (SCU) Student Chapter and the American Association of Petroleum Geologist Suez Chapter (AAPG Suez). These empower students to share knowledge, build relationships and expose them to the 'real world' business environment.

Ramadan food bags campaign

Kuwait Energy distributed essential food products to underprivileged people in Cairo for the Holy month of Ramadan. This project reflects our CSR priority of upholding the human rights of needy people.

Distributing school stationery in Ras Gharib

We provided the El Fardous Foundation in Ras Gharib with complete sets of school stationery to reduce the financial burden of attending school in the academic year 2014. The aim is to support parents to keep their children in education as long as possible.

Iraq

Supporting female students

We invited seven female petroleum engineering students from the Technology University in Baghdad to attend an intensive, two-week internship programme at Kuwait Energy's office in Kuwait – travel and accommodation costs all included. We believe in the importance of providing opportunities to learn from our expertise and knowledge, and offering the chance to get to know the oil industry first hand.

Feeding underprivileged families

Ahead of the month of Ramadan, we provided 'pantry food' supplies to underprivileged families in Siba including rice, oil and sugar.

Taking down barriers to education

We provided new school supplies at the start of the new school year for all children in the Siba area. This included bags, notebooks and pencils – as well as bottles for water.

Supporting displaced families

We provided aid for families forced to leave their homes in troubled areas of Iraq and move to the Basra Governorate. This included blankets, clothes, cooking stoves and fuel.

Our Iraq Team

Human Resources and Performance Management

In 2014, we achieved our scorecard outcomes with success. This includes closing technical competency gaps by delivering a very pleasing 95% against a target of 35% of the identified competency skill gaps of all our employees that have technical and operational responsibilities.

Reducing to just 5.9% over the year, staff turnover also significantly exceeded our target figure of 14%.

Yemen

We developed team training through diverse courses covering both technical and soft skills gaps. With our Yemenisation plan now approved, our Yemeni employee percentage stands at 96.7%.

Egypt

We introduced the ‘Principles of Execution’ programme to deliver great results by achieving Wildly Important Goals’ (WIGs). This supports the overall objective by driving each department’s strategy.

We also recruited high quality new employees for the key posts of Finance Manager and Senior Geo-modeller, the field positions of Reservoir Manager and Drilling Manager, plus senior staff in planning and HR. At the same time, we also identified leadership gaps for future development and created a clear plan to address them.

Focusing on the front-line management skills of managers and supervisors, we rolled out performance management training to all staff with the objective of improving our systems in this area.

Iraq

We have made significant progress in recruitment overall, with 40% of priority positions filled. We successfully recruited for most office and field vacancies including two experienced HSSE coordinators. We also began delivering English language courses for most employees.

Sara Akbar

Chief Executive Officer

Corporate Governance Report

Board Members

These include:

Dr Manssour Aboukhamseen	Executive Chairman
Sara Akbar	Chief Executive Officer
Roger Phillips	Chief Financial Officer
Dr Yousef Al Awadi	Non-Executive Director
Mohamed Yusof Rafie	Non-Executive Director
Rachel English	Non-Executive Director
Sir Ian Prosser	Non-Executive Director (resigned on 16 April 2014)
Mohamad Hussain	Non-Executive Director (appointed on 25 September 2014)
Abby Badwi	Non-Executive Director (appointed on 25 September 2014)
Sir Steve Robson	Non-Executive Director (appointed on 25 September 2014)

The UK Corporate Governance Code

The Board is committed to high standards of governance and continues to work towards full compliance with the principles and provisions of the UK Corporate Governance Code (the Code).

The Board's Role

The Board is responsible for providing leadership, setting the Group's strategy and ensuring that the necessary resources are in place to achieve the agreed strategic aims and objectives. It also determines the Group's key policies and reviews management and financial performance, and is accountable to its shareholders for the proper management of the Group. To achieve this, the Board directs and monitors the Group's affairs within a framework of controls which enable risk to be assessed and managed effectively through clear procedures, lines of responsibility and delegated authorities.

Board Composition

At the end of 2014, the Board comprised nine Directors. Of these, three were Executive Directors and six were Non-Executive Directors, of which five Non-Executive Directors were independent. Dr Yousef Al Awadi is not independent. The intention is to have a Board that collectively has extensive relevant experience, with a good balance of commercial, financial and technical skills appropriate to the requirements of the business, with due regard for diversity. The biographies of the Directors appear in this Report on page 15-17.

Executive Chairman and Chief Executive Officer

The roles of Executive Chairman and Chief Executive Officer are separate and there is a clear division of responsibilities between them. Their bifurcated duties create a system of checks and balances which supports healthy corporate governance, and drives the relationship between the everyday management of the Group by the Chief Executive Officer and the executive decisions approved by the Board under the Chairman.

The Chairman's key responsibilities include leadership of the Board; ensuring its effectiveness in all aspects of its role and setting its agenda; and acting as the guardian and facilitator of the Board's decision-making process, as well as ensuring effective implementation of the Board's decisions. He promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular, and encouraging Non-Executive Directors to constructively challenge and develop strategic proposals. The Chairman is also responsible for ensuring open communications with shareholders.

The Chief Executive Officer is responsible for the operational management of the Group's business, developing strategy and commercial objectives in consultation with the Board, and then implementing such strategy. She also has, with the support of the executive team, primary responsibility for setting an example to Kuwait Energy's employees and communicating the Group's expectations to them in relation to its culture, values and behaviours.

Together with the Chairman, the Chief Executive Officer provides the leadership of the Group, including representing the Group to its stakeholders including shareholders, financial institutions, employees, governments and the general public.

Non-Executive Directors

The Non-Executive Directors bring independent judgement on issues of strategy and resources, including key appointments and standards of conduct. They have a particular responsibility to challenge the performance of the executive management independently and constructively and to monitor the performance of the management team in the delivery of the agreed objectives and targets. All Non-Executive Directors undertake that they will have sufficient time to discharge their responsibilities effectively and any significant commitments are disclosed to the Board prior to appointment. Changes to such commitments are disclosed to the Board on an on-going basis.

Board Meetings

The Chairman ensures that the Board meets for regular scheduled meetings to review the Group's operations and performance and to set and monitor strategy. The Board will also meet for unscheduled meetings if there are specific matters which require Board discussion. The Chairman ensures that senior management are available and may ask them to attend part of the meeting to provide appropriate input as required.

The Board met ten times in 2014 on the following dates:

Sl. No	Date
1	16 January
2	27 March
3	28 April
4	5 June
5	7 July
6	27 July
7	25 September
8	14 October
9	24 October
10	18 December

Attendance of Board and Committee members from 1 January to 31 December 2014:

Board Members	Board Meeting (10 meetings)	Audit and Risk Committee (6 meetings)	Remuneration Committee (4 meetings)	Nomination Committee (6 meetings)
Dr Manssour Aboukhamseen	10/10	-	-	6/6
Sara Akbar	10/10	-	-	-
Roger Phillips	10/10	-	-	-
Rachel English	10/10	6/6	4/4	-
Sir Ian Prosser [1]	2/10	2/6	-	2/6
Dr Yousef Al Awadi	10/10	6/6	4/4	-
Mohamed Yusof Rafie	10/10	-	4/4	6/6
Mohammad Husain [2,4]	2/10	-	-	-
Abby Badwi [2]	3/10	-	1/4	1/6
Sir Steve Robson [3,4]	3/10	1/6	-	1/6

1. *Resigned from the Board on 16 April 2014.*
2. *Joined the Board on 25 September 2014.*
3. *Joined the Board on 25 September 2014 and appointed as a Senior Independent Director on 14 October 2014.*
4. *Joined the relevant committee(s) on 14 October 2014.*

Board Performance Evaluation

The Board undertakes a regular performance review process as recommended by the Code.

In 2013, the Board's evaluation focused on its own performance and that of its committees. The review (facilitated by the Company Secretary) included the completion of confidential non-attributable questionnaires which covered corporate governance, Board effectiveness, strategy development, risk management and Board and committee organisation, composition, operation and dynamics.

The 2014 Board review took the form of an appraisal of each Board member's contribution and performance. It involved the completion of questionnaires with each director assessing himself/herself against a number of personal effectiveness criteria including role and key responsibilities, relevant experience and level of commitment and preparedness. These were then used as the basis for one-on-one evaluation meetings with the Chairman.

No major issues arose from these evaluation processes and the Directors have concluded that the Board and its committees operate effectively. A process of continuous improvement led by the Chairman is in place.

Relationships With Shareholders

The Group maintains regular contact with shareholders through meetings, publications such as this Report, and the Company website, to ensure that the performance, strategies and objectives of the Group are clearly communicated to the shareholders. The primary contact is through the Executive Directors, who provide feedback to the Board as a whole to ensure that all Directors develop an understanding of the views of shareholders about the Company.

Communication with investors is considered a vital part of the Group's corporate governance standards. The Board is committed to protect and facilitate the exercise of shareholder rights and all shareholders are encouraged to attend the AGM, to engage fully with the Company and ask questions.

Board Committees

The Board has three committees (Audit and Risk, Remuneration and Nomination) to, amongst other things, facilitate transparency in the management of the Group's business and encourage participation by the Board members.

Audit and Risk Committee	Remuneration Committee	Nomination Committee
Chairman Dr Yousef Al Awadi	**Chairman** Ms Rachel English	**Chairman** Mr Mohamed Yousef Rafie
Members Rachel English Sir Ian Prosser [1] Mohammad Husain [2] Sir Steve Robson [2]	Members Mohamed Yousef Rafie Dr Yousef Al Awadi Abby Badwi [2]	Members Dr Manssour Aboukhamseen Sir Ian Prosser [1] Abby Badwi [2] Sir Steve Robson [2]

1. *Resigned on 16 April 2014.*
2. *Joined on 14 October 2014.*

Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in fulfilling its fiduciary responsibilities to provide oversight including with respect to the:

- Engagement, independence and performance of the external auditors.
- Engagement and performance of the independent reserve auditor.
- Scope, resources and access, independence and effectiveness of the internal audit function, and the management's responsiveness to the findings and recommendations of the internal auditor.
- Integrity of the Group's financial statements including its annual and half-yearly reports, interim management statements and any other formal announcements relating to the Group's financial performance, and reviewing significant financial reporting issues and judgments contained in them.
- Scope, adequacy and effectiveness of the Group's internal control and risk assessment and management systems including the Group's systems and controls for the detection and prevention of fraud, bribery and money laundering, and the Group's compliance function (legal compliance, conflicts of interest and ethical conduct).
- Adequacy and security of the Group's 'whistle blowing' arrangements.In so doing, the Committee provides a focal point for free and open communication amongst the Non-Executive Directors, the Group's management, and internal and independent auditors.

The Chairman of the Audit and Risk Committee no longer meets the 'independence criteria' under the Code and, accordingly, the Board is looking to replace him in this role in the near future.

The Committee's full charter can be found on the Kuwait Energy website www.kuwaitenergy.co and copies are available on request.

The Audit and Risk Committee charter requires the Committee to convene at least three times annually, on days which coincide with key dates within the Group's financial and audit cycle or as otherwise determined by the Committee's chairman. In 2014, the Audit and Risk Committee met six times and the key items considered were:

- Review of internal audit activities.
- YE13 reserves and resources report.
- YE13 financial report.
- YE14 mid-year financials.
- 2015 economic assumptions.
- 2014 external audit plan.

Nomination Committee

The Board has established a Nomination Committee to assist it in ensuring the Group has the right skills, experience and structure for effective management of the Group, and sound governance practices.

The majority of the members of the Nomination Committee are Non-Executive Directors. The members are appointed, reappointed or replaced by the Board by simple majority. The Committee's meetings may only be attended by the Chairman of the Committee, other Committee members and other Non-Executive Directors.

Key authorities and responsibilities of the Nomination Committee include:

- Regularly reviewing the structure, size and composition of the Board (including skills, knowledge, experience and diversity) and making recommendations to the Board with regard to any changes.
- Identifying and nominating, for the approval of the Board, candidates to fill Board vacancies when they arise.
- Succession planning for Directors and other senior executives.
- Reviewing annually the time required from a Non-Executive Director and assessing whether he/she contributes effectively and demonstrates commitment to the role.
- Developing for the Board's approval, and annually reviewing, the delegation of authorities to management.
- Considering possible conflicts of interests of Directors and any related party transactions of Directors and making relevant proposals to the Board.
- Reviewing any change in status (including fulfilment of independence requirements) and professional affiliation of current Directors.
- Overseeing the development and implementation of a Board induction process for new Directors and a programme of continuing Director development as needed.
- Developing a process for evaluating Board effectiveness and coordinating the annual Board effectiveness evaluation.
- Reviewing corporate governance policies and practices throughout Kuwait Energy and making relevant proposals to the Board to improve their effectiveness.
- Monitoring trends and best practice in corporate governance and nomination in order to properly discharge its duties.
- Reviewing Kuwait Energy's compliance with the provisions of the UK Corporate Governance Code.

The Nomination Committee's full charter can be found on the Kuwait Energy website at www.kuwaitenergy.co and copies are available on request.

The Charter requires the Committee to convene at least once per financial year. In 2014, it met six times to consider the following key items:

- Additional independent director candidates.
- Committee membership.
- Appointment of Senior Independent Director.
- Board evaluation.

Remuneration Committee

A summary of the key responsibilities and activities of the Remuneration Committee is detailed within the Statement to Shareholders from the Chair of the Remuneration Committee section of this report.

Directors' Responsibility Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- Make an assessment of the Group's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for the system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of the board

Dr Manssour Aboukhamseen

Executive Chairman

Dr Yousef Al Awadi

Director and Chairman – Board Audit Committee

Remuneration Report

A STATEMENT TO SHAREHOLDERS FROM THE CHAIR OF THE REMUNERATION COMMITTEE

Dear shareholder,

On behalf of the Board, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2014.

After an extremely challenging 2013, this year has proved to a be a great success for Kuwait Energy with the closure of the High Yield Bond in August, the addition of 508 reserves in Block 9 and reported year-end profits of US$ 42.7 million.

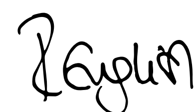
The Committee's objective remains to ensure that the Group's remuneration continues to help attract, motivate and retain talent, and to focus executives on driving the Group strategy over the short, medium and long term.

The main work of the Committee this year has revolved around finalising two incentive schemes, the Short Term Incentive Plan ('STIP') and the Extra-Value Creation Awards ('EVCA'). The STIP, which took effect from 1 January 2013, has been modified slightly for 2014 to reward the Group's top achievers. It continues to be linked to corporate objectives and is subject to a personal performance multiplier and a discretionary HSSE underpin.

The EVCA was applied for the very first time in 2014 and a total of five employees, including one Executive Director, were beneficiaries of the scheme for adding significant value to the Group. Going forward, the scheme has been modified slightly to allow the inclusion of more employees as beneficiaries of these awards while maintaining the same controls over the total pot size.

The Voluntary Share Matching Plan ('VSMP') and Long Term Incentive Plan ('LTIP') remained on hold during 2014 and are likely to be considered and introduced in due course to support shareholder alignment.

Lastly, the Group has recently developed a Performance Management System which strongly correlates the employees' progression and promotion with their relative individual performance and value-addition to the Group.



Rachel English

Remuneration Committee Chair

Compliance Statement

This report covers the reporting period from 1 January 2014 to 31 December 2014 and provides details of the Remuneration Committee (the 'Committee') and the remuneration structure for the directors of Kuwait Energy.

Goals of Remuneration

Kuwait Energy's principal goal is to create value for its shareholders. In serving this goal, the Group's remuneration has been formulated with the following objectives in mind namely to:

- Ensure the Group's remuneration helps to attract, motivate and retain talent.
- Ensure remuneration arrangements reflect the corporate strategy and the markets in which the Group operates, align with Kuwait Energy values, and drive performance as measured by corporate key performance indicators.
- Ensure the remuneration structure provides a clear link between performance and reward, motivating senior executives to achieve superior performance in line with a risk-appetite appropriate for the Group.
- Align executive pay with the interests of shareholders and other stakeholders, by encouraging executive share ownership.
- Ensure the structure is clear, simple and easy to understand.

The remuneration structure is designed to provide the appropriate balance between fixed remuneration and variable 'at-risk' reward which is linked to the performance of both the Group and the individual. The fixed components are base salary and benefits. The performance-related component is the Short Term Incentive Plan ('STIP') and the Extra-Value Creation Awards ('EVCA'), which drives shareholder value creation and supports the delivery of Kuwait Energy's key operational and strategic objectives.

Although the Group approved a Voluntary Share Matching Plan ('VSMP') in 2013 to support retention, particularly at the most senior levels, the plan details and rules are yet to be finalised. This will be a focus for the committee in the coming months.

The implementation of the Long Term Incentive Plan ('LTIP') remains postponed; however, it will be introduced at an appropriate time in the future as the Group evolves.

Responsibilities And Structure Of The Committee

The key responsibilities of the Committee include to:

- Review and approve the remuneration policy, specific remuneration packages, and conditions of service for the Executive Chairman and Executive Directors ('Board Directors'), and the Company Secretary.
- Review the remuneration policy and packages and conditions of service for Senior Vice Presidents and other executives of the Group who report directly to the Chief Executive Officer of the Company (the 'Executive Officers').
- Determine the policy for and approve awards under the Company's cash and equity incentive schemes, and set appropriate performance targets, following the Board's input.
- Approve any major changes in employee benefit structures for the Board Directors.
- Review HR policy, pay and employment conditions across the Group, and consider how these factors should be taken into account when determining Board Directors' and Executive Officers' remuneration.
- Consider whether the remuneration strategy is compatible with the Group's risk management policies.
- Make available the Committee's charter, explaining its role and the authority delegated to it by the Board by including the information on the Kuwait Energy website.

The full terms of reference of the Committee can be found on the Kuwait Energy website (www.kuwaitenergy.co) and copies are available on request.

In 2014 the Committee consisted of Rachel English (Chair), Mohamed Yusof Rafie, Dr Yousef Al Awadi and

Abby Badwi (who was appointed as Non-Executive Director of the Board on 25 September 2014). All Non-Executive Directors are entitled to attend meetings of the Remuneration Committee. The Executive Chairman, Chief Executive Officer and the Manager of Performance & Talent attend meetings by invitation and provide advice to the Committee to enable it to make informed decisions. Other employees attend from time to time at the invitation of the Remuneration Committee Chair, when this is appropriate. No Director is involved in determining his or her own remuneration.

The Committee also meets without management and has received information and advice from Kepler Associates, an independent executive remuneration consultancy firm appointed by the Committee in 2012. In 2014, Kepler Associates provided advice to the Committee on its review of remuneration and other remuneration matters including market trends, Executive Directors' remuneration benchmarking and incentive design. The contract with Kepler Associates was renewed for 2015.

Summary Of Executive Director Remuneration Policy And Structure In 2014

Component	Operation	Opportunity	Performance Measures
Base salary To provide appropriately competitive level of base salary which takes into account the scope and responsibilities of the role, an individual's experience, and market pay levels	Reviewed annually, with any increase applying from 1 January of each year, or following a significant change in responsibilities. Benchmarked against UK-listed companies operating in a similar sector, with reference to local market pay levels. The Committee also takes into account general market and economic conditions and salary increases applied across the general workforce.	Base salary increases will be applied in line with the outcome of the review. In respect of existing Executive Directors, salary increases are expected to be within the range of increases for the general employee population. In exceptional circumstances (e.g. a significant increase in role size or complexity) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain market competitive.	Not applicable
Benefits To provide benefits that are appropriately competitive within the relevant labour market	Benefits comprise various cash allowances in relation to travel, cost of living, housing and special skills. An annual ticket allowance is also payable. As with all employees, Executive Directors benefit from the Company medical scheme and life insurance.	Benefits may vary by role and are subject to the review and approval of the Committee.	Not applicable
Short Term Incentive Plan ('STIP') To reinforce the delivery of key short- and medium-term business and personal objectives	The STIP is reviewed annually prior to the start of each financial year to ensure the opportunity, performance measures and weightings are appropriate and continue to support the Company's strategy. For Executive Directors, the STIP is delivered 50% in cash and 50% is deferred into Kuwait Energy shares for a period of three years, subject to a minimum deferral of US$3,000.	Maximum annual opportunity of up to 18 base monthly salaries for the Executive Chairman and the CEO, and 14 monthly salaries for the CFO.	The STIP is based on Company performance as measured by a corporate scorecard, subject to an individual performance multiplier and a discretionary underpin guided by HSSE performance. The Committee uses its judgment to determine the overall scorecard outcome, based on the achievement of the specific targets and the Committee's broad assessment of Company performance. Details of the measures and weightings applicable for 2014 are provided in the relevant section, below.
Exceptional-Value Creation Award ('EVCA') To reward significant value creation through spot bonuses	The EVCA is reviewed annually by the RemCo. All EVCAs to Executive Directors must be approved by the RemCo. An EVCA budget is set at the beginning of the year and included within the Annual budget.	A maximum of 5% of the Group employees, including Executive Directors, are eligible each year with the total pot capped by the agreed budget.	Determined by the Management and approved by the RemCo for Executive Directors.

Base Salaries

Executive Directors' salaries are reviewed each year. The policy is to benchmark Executive Directors' salaries against a set of sector comparator companies (which for 2014 were FTSE350 Oil & Gas companies) with secondary reference to local market pay levels. When determining salary increases, the Committee also takes into account overall Company performance and the average salary increase for other employees in the Company.

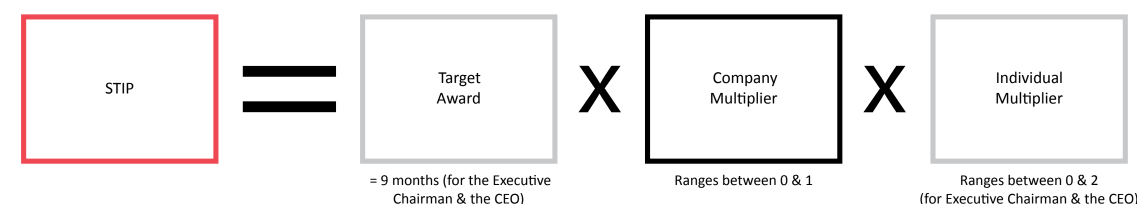
The Committee reviews base salaries on an annual basis; there has been no increase in base salaries since 2012.

Executive Director	2014 Annual Salary (US$)	2013 Annual Salary (US$)	% Change
Executive Chairman	442,482	442,482	Nil
Chief Executive Officer	407,367	407,637	Nil
Chief Financial Officer	348,477	348,477	Nil

Short Term Incentive Plan ('STIP')

The STIP came into effect as of 1 January 2013. This provides for maximum annual opportunities of 18 base monthly salaries for the Executive Chairman and the CEO and 14 base monthly salaries for other senior executives. Payout is based on Group performance as measured by a Corporate Scorecard, subject to an individual performance multiplier and a discretionary underpin guided by HSSE performance (see below).

The STIP was approved in 2013 and operates as follows:



For Executive Directors, and also VPs, 50% of the STIP award is paid immediately in cash and the remaining 50% is deferred in shares for three years.

For VPs and staff, the individual multiplier range varies by grade and is determined by a newly-established Merit Panel for all staff other than those assessed as 'Relatively Meeting Expectations'. For those employees in the top 10% of performance, the range of the individual multiplier is now increased; they are eligible for a 'star uplift', and their total bonus entitlement is capped at the maximum payout set for each level of seniority.

Objectives for the 2014 STIP Scorecard were set by the Committee at the beginning of the year. Further details of the Corporate Scorecard performance objectives and weightings, individual performance measures, and amounts paid for 2014 are provided below.

Exceptional-Value Creation Award ('EVCA')

The EVCA was applied for the first time during 2014, where 5 employees, including one Executive Director, received an EVCA for their role in the closure of the High Yield Bond.

Corporate Scorecard

The following table illustrates the performance measures considered for the corporate scorecard in 2014, selected to fairly capture all key aspects of Company performance. The precise targets and measures have not been disclosed for reasons of commercial sensitivity.

Category	Objective	Weighting (%)
HSSE Performance	Deliver Strong HSSE Performance (operated assets)	12.5%
HR Performance	Employee Recruitment, Retention, Training & Development	10%
Financial Performance	Funding	25%
	Reduce Outstanding Receivables	
	Achieve Operating Cash Flow	
	Maximise Earnings per Share (EPS)	
Operational Performance	Achieve Production Volume	25%
	Add 2P WI Reserves	
	Capital Expenditure	
Strategic	Siba Field Project Development	27.5%
	Portfolio Rationalisation	
	Asset Optimisation	
		100%

The outcome of the 2014 Scorecard Score was 68%.

Individual Performance Multiplier

The individual performance rating of all SVPs and Executive Directors, with the exception of the Executive Chairman and the CEO, was assessed based on individual performance measures, derived from the Corporate Scorecard objectives. Each individual rating equates to a numerical value for the Individual Performance Multiplier.

The personal assessment of the CEO is conducted by the Executive Chairman and the rating is approved by the RemCo. The personal assessment of the Executive Chairman is conducted by the RemCo.

Overall STIP Outcome

The outcome of the 2014 score was 68%, which equates to a Group Multiplier of 0.75.

Total STIP bonuses for the Group were US$ 4.89 million in 2014, of which US$ 3.78 million was in cash and US$ 1.11 million was in shares. No STIP bonuses were paid in 2013.

Pension

Kuwait Energy does not operate any pension schemes, in line with Kuwait practice.

Exit Payments Policy And Service Contracts

Kuwait Energy's policy is to limit severance payments on termination to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans.

Non-Executive Directors

Non-Executive Directors are appointed by the Board on the recommendation of the Nomination Committee. The current contracts are for a three-year appointment. The period of appointment may be extended upon the recommendation of the Nomination Committee and the annual approval of the shareholders of the Company at a general meeting.

Non-Executive Directors do not have service contracts, and do not participate in the Company's incentive schemes. They have letters of appointments which can be terminated by either party on one month's notice.

Non-Executive Directors are paid a fee that is approved by Executive Directors on the recommendation of the Executive Chairman. Currently, their annual fee is US$60,000 per annum for Board membership. In addition to this, the Senior Independent Director is paid an additional US$10,000 per annum and for each committee Chairmanship an additional US$10,000 per annum is paid.

Furthermore, Dr Yousef Al Awadi received an additional fee of US$24,500 per month in respect of his services as adviser to the Executive Chairman. The agreement with Dr Al Awadi was terminated as of 31 December 2014.

The Non-Executive Directors are also entitled to receive reimbursement for reasonable expenses incurred in fulfilling their role, or a per diem for local travel and accommodation costs when attending Board meetings.

Remuneration Summary

Name of Director	Salary/fees		Bonus				Total	
	2014	2013	2014		2013[1]		2014	2013
	(US$)	(US$)	(US$)	(US$)	(US$)	(US$)	(US$)	(US$)
			Cash (US$)	Share-Based Payment (US$)	Cash (US$)	Share-Based Payment (US$)	Cash & Shares	Cash & Shares
Dr Manssour Aboukhamseen	442,482	442,482	118,716	118,716	0	0	679,914	442,482
Sara Akbar	407,637	407,637	109,856	109,856	0	0	627,349	407,637
Roger Phillips	348,477	348,477	40,000 (EVCA)[2] + 50,531 (STIP)	50,532	0	0	489,540	348,477
Dr Yousef Al Awadi	356,000[3]	356,000	NA	NA	NA	NA	356,000	356,000
Mohamed Yusof Rafie	60,000	60,000	NA	NA	NA	NA	60,000	60,000
Rachel English	60,000	60,000	NA	NA	NA	NA	60,000	60,000
Abby Badwi	15,000	NA	NA	NA	NA	NA	15,000	NA
Sir Steve Arthur Robson (SID)	17,111	NA	NA	NA	NA	NA	17,111	NA
Mohammad Husain	0	NA	NA	NA	NA	NA	0	NA
Sir Ian Prosser	20,000	60,000	NA	NA	NA	NA	20,000	60,000

1. *No bonuses were awarded for the year 2013.*
2. *The CFO was awarded an EVCA of US$40,000 (approved by the RemCo in September 2014) for his exceptional contribution to the success of the High Yield Bond.*
3. *Include US$296,000 in respect of his fees paid as advisor to the Executive Chairman.*

Note: NA is an abbreviation for Not Applicable.

Directors' Service Contracts

Details of the appointment dates and service contract notice periods of the Executive Directors who served during the year are set out below:

Executive Director	Appointment Date	Notice Period
Dr Manssour Aboukhamseen	20 July 2011	90 days
Sara Akbar	27 April 2011	90 days
Roger Phillips	27 April 2011	90 days

Details of the letters of appointments of the Non-Executive Directors who served during the year are set out below:

Non-Executive Director	Appointment Date	Expiry of current term
Dr Yousef Al Awadi	22 February 2012	Non-Executive Directors are currently serving on three-year contracts. Continuation is contingent on satisfactory performance and the annual approval of the on-going appointment by the shareholders of the Company at a general meeting.
Mohamed Yusof Rafie	22 February 2012	
Rachel English	22 February 2012	
Abby Badwi	25 September 2014	
Sir Steve Arthur Robson	25 September 2014	
Mohamad Husain	25 September 2014	
Sir Ian Prosser	27 September 2012	Resigned on 27 April 2014

Directors' interests in Company shares under the Short Term Incentive Plan ('STIP'):

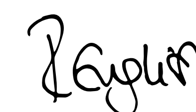
Name of Director	No. of STIP shares as of 1 January 2014	Awarded STIP Shares during the year[1]	Date Awarded	Vested during the year[2]	No. of STIP shares as of 31 December 2014
Dr Manssour Aboukhamseen	137,014	Nil	NA	58,610	195,624
Sara Akbar	128,798	Nil	NA	54,521	183,319
Roger Phillips	92,548	Nil	NA	44,980	137,528

1. *No shares were awarded relating to the STIP for year 2013*
2. *The shares vested during the year relate to the Employee Incentive Plan for years 2011 and 2012.*

Directors' Shareholdings

The Executive Directors' and Non-Executive Directors' direct interests in ordinary shares of the Company were:

Name of Director	No. of Shares as of 31 December 2014	No. of Shares as of 31 December 2013
Dr Manssour Aboukhamseen	970,555	911,945
Sara Akbar	633,319	578,798
Roger Phillips	182,527	137,547
Dr Yousef Al Awadi	16,875	16,875
Mohamed Yusof Rafie	16,875	16,875
Rachel English	-	-
Abby Badwi	-	-
Sir Steve Arthur Robson	-	-
Mohamad Husain	-	-
Sir Ian Prosser	-	-



Rachel English

Remuneration Committee Chair

Risk Management Report

In 2014, Kuwait Energy separated the activities of its treasury and risk functions. The latter is now handled by a new department responsible for HSSE, security, internal audit and compliance.

Strategic Risks

Risks with the potential to impact the Group's ability to create value for shareholders and meet their expectations include:

Risk	Mitigation
Capital allocation	Our aim is unchanged, with 80% of capital allocated to producing and development assets, and 20% to exploration. In times of capital availability shortage, we reduce the exploration allocation – without losing focus on exploration commitments – as per concession agreements.
Appropriate portfolio mix	For the near future, the Group is consolidating its assets in MENA region countries only – i.e. those where its operational strengths lie. It therefore took the decision to exit from assets in Ukraine and Russia, which we sold in April and November 2014 respectively.
Identification and mitigation	Senior management regularly assesses Kuwait Energy's risk profile and risk management methodology. Adopting the values and guidelines of ISO 31000 Risk Management, our process is designed to recognise risk at various levels to maximise risk alertness and consolidate enterprise mitigation.
Macro-economic/ political issues	The Group's Risk Management department constantly monitors the macro-economic and political situation in the countries where we operate and suggests appropriate strategies for managing operational and financial risks. A key priority is to source funds for operations in each country from that same country – thus reducing cross-country risks. In the recent past, Yemen has been immersed in transformation. As a result, internal disputes have been played out on a large scale. Nevertheless, Kuwait Energy has managed to navigate the challenging business environment despite the current turbulence in the region. Through calculated risk management and strong relationships, Kuwait Energy continues to capitalise on its strategic advantage within the country. Operations at Block 5 continued but were sometimes disrupted during 2014 due to tribal and regional unrest. We continue to take steps to protect our license interest, as described further in note 14 and 33 to the consolidated financial statements. In Mansuriya, the Group has decided to maintain its administrative hold until the security situation is judged to be acceptable for further operations. The Group and the Iraqi Government are aligned on forward plans.

Financial Risks

Risks that influence access to funding to meet our financial commitments include:

Risk	Mitigation
Oil price volatility	As a producer, the Group always has a 'long' position on the product. The risk lies more in terms of falling oil prices than upward movements. We study price forecasts regularly and take an informed decision as to whether to hedge the risk of downward movement in oil prices after considering the associated costs. The Board of Directors, in consultation with the Audit and Risk Committee, decides on a hedging policy every year with the right to revise its decision more frequently if the situation demands. No hedges are currently in place. Additionally, in Iraq concession contracts are service fee-based, thus mitigating the impact of oil price movement.
Currency rate fluctuations	For the most part, the Group earns and spends in its functional (and reporting) currency, the United States Dollar. As a result, currency mismatch is kept at a very minimal level, avoiding the need for hedge mechanisms. Wherever currency conversions are required, as in Egypt, we keep them at relatively low levels and transact at the best available rates. The incidence of this risk is low.
Access to capital	Any E&P company requires constant access to both equity and debt capital. This is impacted by buoyancy in the capital markets and the perception of lenders. The Group does face challenges to source its capital from investors and lenders. However, through a careful process of cash budgeting and treasury management, and managing relationships with its existing investors and lenders, the Group has been able to manage this risk down to a controllable level.
Interest rate fluctuation	Current borrowing is at a fixed interest rate.
Credit risk	Credit risk varies according to the country of operation. This risk is very low in Yemen as sales are made to a partner in the concession that is a very large entity. In Egypt, where we sell to the government organisation EGPC, we manage the risk through constant follow up with the counterparty and by negotiating cargo off-take contracts. In other countries of operation, sales are made against advance receipts, mitigating this risk. We will further evaluate this risk in Iraq when we start earning revenue, which we expect to do in 2015.

Operational Risks

The following risks could potentially impact hydrocarbon exploration, development and production. They involve staff, contractors, communities, suppliers or events that could impact our reputation, cause cost overruns or revenue losses.

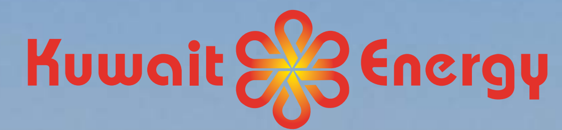
Risk	Mitigation
Hydrocarbon reserve and resource estimates	To ensure fair and reasonable estimates of hydrocarbon reserves and resources, the Group's year-end estimates are externally certified. However, the calculations contain natural uncertainties that are inherent in reservoir geology, and depend on the seismic and well data available.
Government regulations	Changes in laws and regulations, including tax regimes, could potentially increase or decrease the value of development or exploration projects. Strong relationships with government officials in the Group's countries of operation enable the anticipation of, and negotiation on, any potential change to contractual terms.
Political instability and jurisdictional risk	Political stability, as well as economic, legal, regulatory and social uncertainties in countries of operations are of paramount concern to Kuwait Energy. The Group manages this in some countries by spreading this exposure across other diverse assets and through JV arrangements.
HSSE	The Group 's Risk Management and HSSE functions collaborate to evaluate safety and sustainability risks through a rigorous assessment process. This helps to determine mitigation strategies for the Group, as well as its contractors.
Security	The Group constantly monitors security situations and events in all countries of operations. Security risks are mitigated through intelligence gathering and cooperation with other governmental and non-governmental agencies, as well as private sources as appropriate. We always prioritise actions to protect people and assets on a timely and proactive basis.
Relations with local stakeholders	Kuwait Energy strives continuously to improve relationships with its local stakeholders through a number of initiatives.
Human resources	Kuwait Energy considers human resources an essential component of its project delivery capabilities and a vital foundation for successful operations. The lack of specialised or skilled labour, or an inability to attract qualified human resources, would inevitably impact the Group's operational performance and target delivery. The Group has processes in place to identify and address the optimal human resources needs for the business, and to boost workforce productivity through improved attraction and retention.

Kuwait Energy Five Year Summary

Kuwait Energy Five Year Summary						
	Units	2010	2011	2012	2013	2014
Financial Performance[1]						
Product Sales revenue	US$ million	100.5	138.5	183.0	262.5	270.8
Cost of sales	US$ million	66.4	49.1	71.5	128.2	140.5
Operating cash flow before working capital	US$ million	85.6	95.1	131.4	189.9	182.1
Net profit /(loss)	US$ million	(6.1)	31.0	20.0	(295.8)	42.7
Financial Position[1]						
Total assets	US$ million	693.5	802.5	890.3	791.1	935.5
Debt	US$ million	53.0	53.0	147.2	277.1	360.3
Total equity	US$ million	557.4	656.6	654.3	370.2	416.5
Reserves and Production						
Proven plus probable WI reserves [2]	mmboe	48.8	235.3	221.6	213.1	671.3
Annual WI production	mmboe	4.8	5.0	6.6	8.5	9.2
Development wells drilled during the year	number of wells	33	49	49	50	48
Exploration wells drilled during the year	number of wells	11	8	7	7	6
Exploration expenditure [1]	US$ million	41.6	36.3	37.4	80.7	46.5

1. *Financial comparatives have been restated (see Note 2 of the Financial Statement). As in 2014 the Group retrospectively adopted IFRS 11 Joint Arrangements and changed its accounting policy for intangible exploration and evaluation assets from 'modified full cost method' to a 'successful efforts method'. Results of 2010 and 2011 further restated to separately show the results of Russia and Ukraine operations, both considered to represent discontinued operations. Reserves and production numbers are not restated for discontinued operations. Assets in Ukraine were sold in April 2014 and assets in Russia were sold in November 2014.*
2. *Reserve estimates are Kuwait Energy working interest certified by GCA.*

Financial Statements



KUWAIT ENERGY PLC GROUP
Consolidated Financial Statements
And Independent Auditor’s Report For The
Year Ended 31 December 2014

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Notes to the consolidated financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KUWAIT ENERGY plc

We have audited the group financial statements of Kuwait Energy plc for the year ended 31 December 2014 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2014 and of the group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

David Paterson (JFSC)
for and on behalf of Deloitte LLP
Chartered Accountants
London, UK

30 April 2015

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2014

	Notes	Year ended 2014 USD 000's	(Restated) [1] Year ended 2013 USD 000's
Continuing Operations			
Revenue	6	270,759	262,494
Cost of sales	7	(140,504)	(128,228)
Gross profit		130,255	134,266
Exploration expenditure written off	13	(1,513)	(91,707)
Impairment of oil and gas assets	14	(19,247)	(1,801)
General and administrative expenses	8	(32,669)	(26,261)
Operating profit		76,826	14,497
Share of results of Joint Venture	16	1,040	1,543
Gain on held for trading derivative	27	-	322
Fair value loss on convertible loans	24	(9,931)	(12,071)
Other income		653	599
Foreign exchange loss		(273)	(3,762)
Finance costs	9	(12,773)	(10,068)
Profit/(loss) before tax		55,542	(8,940)
Taxation charge	10	(8,800)	(8,097)
Profit/(loss) for the year from continuing operations		46,742	(17,037)
Discontinued operations			
Loss for the year from discontinued operations	11	(4,039)	(278,787)
Profit/(loss) for the year		42,703	(295,824)
Attributable to:			
Owners of the Company		42,711	(295,824)
Non-controlling interests		(8)	-
		42,703	(295,824)
Earnings/(loss) per share from continuing operations attributable to owners of the Company			
- Basic (cents)	12	14.2	(5.2)
- Diluted (cents)	12	14.2	(5.2)
Earnings/(loss) per share from continuing and discontinued operations attributable to owners of the Company			
- Basic (cents)	12	13.0	(91.0)
- Diluted (cents)	12	13.0	(91.0)

(1) In 2014 the Group adopted IFRS 11 Joint Arrangements and changed its accounting policy for intangible exploration and evaluation assets from a "modified full cost method" to a "successful efforts method". These changes in accounting policy have been applied retrospectively and consolidated income statement, consolidated balance sheet, consolidated cash flow statement and related supporting notes have been restated accordingly. Further details are provided in note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

	Note	Year ended 2014 USD 000's	(Restated) Year ended 2013 USD 000's
Profit /(loss) for the year		42,703	(295,824)
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of retirement benefit obligation	25	812	137
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		-	(1,100)
Recycling of exchange differences on classification as held for sale	11	-	9,866
Other comprehensive income for the year		812	8,903
Total comprehensive income/(loss) for the year		43,515	(286,921)
Attributable to:			
Owners of the Company		43,523	(286,921)
Non-controlling interests		(8)	-
		43,515	(286,921)

No taxation charge arose on any item of other comprehensive income and there was no other comprehensive income from Joint Venture in either the current or prior years.

KUWAIT ENERGY plc

CONSOLIDATED BALANCE SHEET
As at 31 December 2014

	Notes	2014 USD 000's	(Restated) 2013 USD 000's	(Restated) As at 1 January 2013 USD 000's
ASSETS				
Non-current assets				
Intangible exploration and evaluation assets	13	46,488	58,178	87,842
Property, plant and equipment	14	522,537	348,967	466,916
Advance for acquisition of subsidiary	15	-	-	30,000
Investment in Joint Venture	16	8,138	10,598	9,055
Other non-current asset	17	5,141	6,455	7,647
Deferred tax asset		-	-	8,404
		582,304	424,198	609,864
Current assets				
Inventories	18	21,642	24,149	19,865
Trade and other receivables	19	115,589	163,853	213,836
Cash and cash equivalents	20	215,992	127,594	46,766
Assets classified as held for sale	11	-	51,274	-
		353,223	366,870	280,467
Total assets		935,527	791,068	890,331
EQUITY AND LIABILITIES				
Equity				
Share capital	21	557,808	507,832	500,857
Share premium		204,760	189,309	188,526
Other reserves	22	(106,609)	(36,003)	(44,906)
Retained (deficit)/earnings		(248,217)	(290,928)	9,877
Equity attributable to owners of the Company		407,742	370,210	654,354
Non-controlling interest	15	8,770	-	-
Total equity		416,512	370,210	654,354
Non-current liabilities				
Borrowings	23	242,459	88,867	60,000
Convertible loans	24	111,740	105,807	83,213
Long-term provisions	25	15,697	6,256	3,471
Deferred tax liability		-	-	24,053
		369,896	200,930	170,737
Current liabilities				
Trade and other payables	26	133,653	92,001	52,228
Current tax payable		9,377	9,098	8,497
Derivative financial instruments	27	-	162	484
Current portion of borrowings	23	-	75,649	-
Current portion of convertible loans	24	6,089	6,744	4,031
Liabilities directly associated with assets classified as held for sale	11	-	36,274	-
		149,119	219,928	65,240
Total liabilities		519,015	420,858	235,977
Total equity and liabilities		935,527	791,068	890,331

The Financial Statements were approved by the board of directors and authorised for issue on 30 April 2015. They were signed on its behalf by:

Manssour Aboukhamseen
Chairman & Managing Director

KUWAIT ENERGY plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital USD 000's	Share premium USD 000's	Other reserves (note 22) USD 000's	Retained (deficit)/ earnings USD 000's	Total USD 000's	Non-controlling interest USD 000's	Total equity USD 000's
Balance at 1 January 2013 (as previously reported)	500,857	188,526	(44,906)	112,466	756,943	-	756,943
Effect of change in accounting policy for intangible exploration and evaluation assets (note 2)	-	-	-	(102,589)	(102,589)	-	(102,589)
As restated	500,857	188,526	(44,906)	9,877	654,354	-	654,354
Loss for the year	-	-	-	(295,824)	(295,824)	-	(295,824)
Other comprehensive income for the year	-	-	8,903	-	8,903	-	8,903
Total comprehensive loss for the year	-	-	8,903	(295,824)	(286,921)	-	(286,921)
Shares issued to IFC (note 21)	4,981	-	-	(4,981)	-	-	-
Issue of shares under employee incentive scheme (note 21)	1,994	783	-	-	2,777	-	2,777
Balance at 31 December 2013 (restated)	507,832	189,309	(36,003)	(290,928)	370,210	-	370,210
Profit/(loss) for the year	-	-	-	42,711	42,711	(8)	42,703
Other comprehensive income for the year	-	-	812	-	812	-	812
Total comprehensive income for the year	-	-	812	42,711	43,523	(8)	43,515
Acquisition of subsidiary (note 15)	46,785	14,057	(69,669)	-	(8,827)	8,778	(49)
Purchase of treasury shares (note 22)	-	-	(1,749)	-	(1,749)	-	(1,749)
Issue of shares for prior year business combination (note 21)	822	604	-	-	1,426	-	1,426
Issue of shares under incentive scheme (note 21)	2,369	790	-	-	3,159	-	3,159
Balance at 31 December 2014	557,808	204,760	(106,609)	(248,217)	407,742	8,770	416,512

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	Year ended 2014 USD 000's	(Restated) Year ended 2013 USD 000's
OPERATING ACTIVITIES			
Profit/(loss) for the year		42,703	(295,824)
Adjustments for:			
Share of results of Joint Venture		(1,040)	(1,543)
Depreciation, depletion and amortisation		83,505	75,965
Exploration expenditure written off		1,513	91,707
Impairment of oil and gas assets		19,247	1,801
Exploration expenditure written off on discontinued operations		-	18,622
Impairment charge on discontinued operations		3,126	236,940
Other non-cash items included in discontinued operations		-	32,048
Tax charges		8,800	8,097
Gain on held for trading derivative		-	(322)
Share based expense		1,066	-
Fair value loss on convertible loans		9,931	12,071
Finance costs		12,773	10,068
Interest income		(568)	(527)
Provision for retirement benefit obligation		1,066	826
Operating cash flow before movement in working capital		182,122	189,929
Decrease in trade and other receivables		48,277	36,400
Increase in trade and other payables		29,954	17,905
Decrease in inventories		1,223	3,024
Tax paid		(8,521)	(7,496)
Net cash generated by operating activities		253,055	239,762
INVESTING ACTIVITIES			
Purchase of intangible exploration and evaluation assets		(49,797)	(78,358)
Purchase of property, plant and equipment		(186,093)	(83,712)
Purchase of other fixed assets		(1,110)	(2,869)
Decrease in capital inventory stores		1,284	790
Additions to decommission and retirement benefit obligation fund	17	(5,141)	-
Proceeds from disposal of assets classified as held for sale	11	13,300	-
Acquisition of subsidiary, net of cash acquired	15	451	(102,414)
Dividend received from Joint Venture	16	3,500	-
Interest received		568	527
Net cash used in investing activities		(223,038)	(266,036)
FINANCING ACTIVITIES			
Proceeds from borrowings		127,054	150,000
Repayment of borrowings		(48,735)	(45,484)
Proceeds from convertible loan		-	17,000
Purchase of treasury shares		(1,749)	-
Dividend paid		-	(6)
Finance costs paid		(18,189)	(14,408)
Net cash generated by financing activities		58,381	107,102
Net increase in cash and cash equivalents		88,398	80,828
Cash and cash equivalents at beginning of the year		127,594	46,766
Cash and cash equivalents at end of the year	20	215,992	127,594

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. INCORPORATION AND ACTIVITIES

Kuwait Energy plc ("the Company") is a company incorporated on 12 September 2011 in accordance with the Commercial Companies Law in the Bailiwick of Jersey.

The Company and its subsidiaries (together referred to as "the Group") have been established with the objective of exploration, production and commercialisation of crude oil and natural gas.

The Company's registered address is Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES.

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards affecting the financial statements

In the current year, the Group has adopted the following new and revised standards and interpretations. The impact of the application of these standards is set out below:

IAS 28 (revised 2011) Investment in Associates and Joint Ventures
As a consequences of the new IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investment in Associates and Joint Ventures, and describes the application of the equity method to investments in Joint Ventures in addition to associates.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interest in Joint Ventures and SIC-13 Jointly-Controlled Entities- Non-monetary contributions by Ventures. IFRS 11 removes the option to account for Jointly Controlled Entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a Joint Venture under IFRS 11 must be accounted for using the equity method.

The Group owns a 20% equity interest in Medco L.L.C. ("Medco"), a jointly controlled entity incorporated in Oman, engaged as operator for the Karim Small fields in Oman. Under IAS 31 Investment in Joint Ventures (prior to transition to IFRS 11), the Group's interest in Medco was classified as a jointly controlled entity and the Group's share of the assets, liabilities, revenue, income and expenses were proportionately consolidated in the consolidated financial statements. On adoption of IFRS 11, the Group has determined its interest to be a Joint Venture and is required to account for this using the equity method.

The table below shows the effect of adopting IFRS 11 on the consolidated income statement, consolidated balance sheet and consolidated statement of cash flows. There was no impact on the reported profit for the year, net assets or the basic and diluted earnings per share.

Impact on consolidated income statement:	Year ended 2013 USD 000's
Continuing Operations	
Decrease in revenue	(21,898)
Decrease in cost of sales	20,065
Increase in share in results of Joint Venture	1,543
Decrease in profit before tax	(290)
Decrease in taxation charge	290
Net impact on profit for the year from continuing operations	-

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

Standards affecting the financial statements (continued)

Impact on consolidated balance sheet:	31.12.13	01.01.13
	USD 000's	USD 000's
Decrease in property, plant and equipment	(5,115)	(6,359)
Increase in investment in Joint Venture	10,598	9,055
Decrease in trade and other receivables	(6,418)	(6,184)
Decrease in cash and cash equivalents	(3,969)	(1,618)
Net decrease in assets	(4,904)	(5,106)
Decrease in trade and other payables	4,614	4,678
Decrease in current tax payable	290	428
Net decrease in liabilities	4,904	5,106
Net impact on equity	-	-

Impact on consolidated statement of cash flows:	Year ended 2013
	USD 000's
Net decrease in cash generated by operating activities	(13,563)
Net decrease in cash used in investing activities	11,212
Net decrease in cash generated during the year	(2,351)

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 is a new disclosure standard and is applicable to entities that have interest in subsidiaries, joint arrangements and associates. In general, the application of IFRS 12 has resulted in more extensive disclosures for the consolidated financial statements.

Standards not affecting the reported results or the financial position

The following new and revised standards and interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation- Special Purpose Entities. IFRS 10 changes the definitions of control such that an investor has control over an investee when a) it has power over the investee; b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The adoption of this standard has not resulted in any impact on the financial position or performance of the Group.

IAS 27 (revised 2011) Separate Financial Statements
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

Standards not affecting the reported results or the financial position (continued)

Amendments to IFRS 10, IFRS 12, and IAS 27 – Investment Entities
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the year. These amendments have no material impact to the Group and have resulted only in additional disclosure in the consolidated financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuance of Hedge Accounting
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior years.

Standards not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9 Financial Instruments
IFRS 14 Regulatory Deferrals Accounts
IFRS 15 Revenue from Contracts with Customers
IFRIC 21 Levies
Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions
Annual Improvements to IFRSs: 2010-12 Cycle (Dec 2013)
Annual Improvements to IFRSs: 2011-13 Cycle (Dec 2013)
Amendments to IFRS 11- Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization

The adoption of IFRS 9 Financial Instruments which the Group plans to adopt for the year beginning on 1 January 2016 will impact both the measurement and disclosures of financial instruments. The Group has not yet assessed the potential impact of IFRS 15 on its financial results, which applies for periods beginning on or after 1 January 2017.
The Directors do not expect that the adoption of the other Standards listed above will have a material impact on the financial statements of the Group in future years.

Changes in accounting policy

The Group's accounting policies are consistent with the prior year other than the changes to the standards noted above and except for the policy for 'intangible exploration and evaluation assets'.

During the year, the Group has voluntarily changed its accounting policy for intangible exploration and evaluation assets from the 'modified full cost method' to the 'successful efforts method' (see note 3) to better reflect the performance of the Group and to align with the more prevalent method of accounting for Oil and Gas assets within its peer group.

The change in accounting policy has been applied retrospectively and the comparative information has been restated where needed. The table below shows the effect of this change in accounting policy on consolidated income statement, consolidated balance sheet, reported profit for the year, equity, basic and diluted earnings per share. There was no impact on the consolidated statement of cash flows.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

Changes in accounting policy (continued)

	Year ended 2013
Impact on consolidated income statement:	USD 000's
Continuing Operations	
Decrease in cost of sales	6,691
Increase in exploration expenditure written off	(43,855)
Net impact on profit for the year from continuing operations	(37,164)
Impact on loss per share from continuing operations	
- Decrease in basic (cents)	(11.4)
- Decrease in diluted (cents)	(11.4)
Impact on loss per share from continuing and discontinued operations	
- Decrease in basic (cents)	(11.4)
- Decrease in diluted (cents)	(11.4)

Impact on consolidated balance sheet:	31.12.2013	01.01.2013
	USD 000's	USD 000's
Decrease in intangible exploration and evaluation assets	(137,274)	(95,126)
Decrease in property, plant and equipment	(2,509)	(7,463)
Net decrease in assets	(139,783)	(102,589)
Net impact on equity	(139,783)	(102,589)

The financial statements for the six months ended 30 June 2014 incorporated this change in accounting policy. Due to a subsequent modification in the detailed application of this newly adopted accounting policy, these full year financial statements include revisions to the 30 June figures which have resulted in additional reductions of USD 78,042 thousand in the restated 31 December 2013 net assets of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis, except for the financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. These consolidated financial statements are presented in US Dollars ("USD"), which is the Company's functional and presentation currency, rounded off to the nearest thousand. The principal accounting policies adopted are set out below.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurement are categorised into Level 1, 2 or 3based on the degree to which the inputs to the fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) as detailed in note 31. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to owners of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going concern

As at 31 December 2014, the Group was funded principally by a combination of its cash balances (see note 20), equity (see note 21), borrowings (see note 23) and convertible loans (see note 24). The Group has significant levels of planned capital expenditure during the next 12 months, although a significant portion of this is discretionary. It also continues to focus on collecting the amounts owed from its major customer in Egypt, Egyptian General Petroleum Corporation ("EGPC"), and is actively pursuing collection of these balances, as evidenced by the significant amounts collected during 2014 (see note 19).

The Group's projections, taking into account reasonably possible changes in trading conditions, indicate that it should have enough cash flows to meet its minimum commitments, including loan repayments, and continue its operations for at least 12 months from the date of approval of these financial statements.

Accordingly the Directors have, at the time of approving these financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

Thus the Directors continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are recognised in the consolidated statement of income as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement year adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (revised 2008) are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with "IFRS 5 Non-current Assets Held for Sale and Discontinued Operations", which are measured at fair value less costs to sell.

If the initial accounting for a business combination is incomplete by the end of the reporting year in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement year (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that, if known, would have affected the amounts recognised as at that date.

The measurement year is the year from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as at the acquisition date and is subject to a maximum of one year.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in equity are reclassified to the consolidated statement of income, where such treatment would be appropriate if that interest is disposed of.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in Joint Ventures

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

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in Joint Ventures are accounted for using the equity method.

Under the equity method, the investment in a Joint Venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the Joint Venture since the acquisition date. Goodwill relating to the Joint Venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The aggregate of the Group's share of profit or loss of a Joint Venture is shown on the face of the consolidated income statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the Joint Venture. The statement of profit or loss reflects the Group's share of the results of operations of the Joint Venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the Joint Venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the Joint Venture are eliminated to the extent of the interest in the Joint Venture.

The financial statements of the Joint Venture are prepared for the same reporting year as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs that are directly attributable to the acquisition of financial assets that are recorded at other than fair value through profit and loss.

Financial assets are classified as "cash and cash equivalents", "trade and other receivables" and "held to maturity investment". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter year to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Cash and cash equivalents
Cash and cash equivalents in the consolidated statement of cash flows include cash, bank balances and short-term deposits with an original maturity of three months or less.

Trade and other receivables
Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated statement of income when there is objective evidence that the asset is impaired.

Held to maturity investments
Bonds with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held to maturity investment. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each consolidated balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted.

For trade receivables, objective evidence of impairment could include: (i) significant financial difficulty of the issuer or counterparty; or (ii) default or delinquency in interest or principal payments; or (iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit year of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in the consolidated statement of income. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of income.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowings for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Treasury shares
Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. Such treasury shares may be acquired and held by the Company or by other member of the consolidated group. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Treasury shares held by the Company are not entitled to any cash dividend that the Company may propose.

Trade payables
Trade payables are recognised initially at fair value, net of transaction costs incurred. Trade payables are subsequently stated at amortised cost.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred, unless such costs relate to facilities in which case they are capitalised as non-current assets. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the year of the borrowings using the effective interest method.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Convertible loans
Convertible loans, currently held by the Group are classified as "fair value through profit or loss". These borrowings are initially and subsequently measured at fair value and any change in the fair value is recognised in the income statement. The transaction costs paid on these borrowings are also recognised in the income statement.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial year of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other borrowing costs are calculated on the accrual basis and are recognised in the consolidated statement of income in the year in which they are incurred.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oil and gas assets

The Group adopts the successful efforts method of accounting for exploration and evaluation expenditure. Pre-licence costs are expensed in the year in which they are incurred. All licence acquisition, exploration and evaluation costs and directly attributable administration costs are initially capitalised as intangible exploration and evaluation assets in cost centres by well, field or exploration area, as appropriate. Borrowing costs are capitalised insofar as they relate to specific development activities.

These costs are then written off as exploration costs in the income statement unless commercial reserves have been established (see below) or the determination process has not been completed and there are no indications of impairment.

Tangible non-current assets used in acquisition, exploration and evaluation are classified with tangible non-current assets as property, plant and equipment. To the extent that such tangible assets are consumed in exploration and evaluation the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Upon successful conclusion of the appraisal programme and determination that commercial reserves exist, associated costs are transferred to tangible non-current assets as property, plant and equipment. Exploration and evaluation costs carried forward are assessed for impairment as described below.

All field development costs are capitalised as property, plant and equipment. Property, plant and equipment related to production activities is amortised in accordance with the Group's depletion and amortisation accounting policy.

Proceeds from the farm out of exploration and evaluation assets are credited against the relevant cost centre. Any overall surplus arising in a cost centre is credited to the consolidated statement of income.

Depreciation, depletion and amortisation
Depletion, depletion and amortisation is provided on oil and gas assets in production using the unit of production method, which is the ratio of oil and gas production in the period to the estimated quantities of proven and probable entitlement reserves at the end of the period plus the production in the period, generally on a field-by-field basis, or a group of fields which are reliant on a common infrastructure. Costs used in the unit of production calculation comprise the net book value of capitalised costs, together with estimated future development costs required to recover the proven and probable reserves remaining. The effects of changes in estimates in the unit of production calculations are accounted for prospectively.

Impairment of oil and gas assets
Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed by comparison with the higher of fair value less costs to sell or value in use. The value in use, is calculated as the estimated future cash flows based on management's expectations of future oil and gas prices and the future costs of developing and producing the proved and probable reserves, discounted using a discount rate adjusted for the risk specific to each asset. Where there is evidence of economic interdependency between fields, such as common infrastructure, the fields are grouped as a single cash-generating unit for impairment purposes.

Any identified impairment is charged to the consolidated statement of income. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depletion, depreciation and amortisation that would have been charged since the impairment.

Commercial reserves
Proven and probable oil and gas reserves as defined in the Petroleum Resources Management System ("PRMS") are considered as commercial reserves.
Proven reserves include reserves that are confirmed with a high degree of certainty through an analysis of the development history and a volume method analysis of the relevant geological and engineering data. Proven reserves are those that, based on the available evidence and taking into account technical and economic factors, have a better than 90% chance of being produced.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oil and gas assets (continued)

Commercial reserves (continued)
Probable reserves are those reserves in which hydrocarbons have been located within the geological structure with a lesser degree of certainty because fewer wells have been drilled and certain operational tests have not been conducted. Probable reserves are those reserves that, on the available evidence and taking into account technical and economic factors, have a better than 50% chance of being produced.

These reserves are being calculated under existing economic and operating conditions, i.e., prices and costs as at the date the estimate is made. Prices include consideration of changes in existing prices provided by contractual arrangements and management's forecast of future prices.

These estimates, made by the Group's engineers and annually evaluated by independent reservoir engineers, are reviewed annually and revised, either upward or downward, as warranted by additional data. Revisions are necessary due to changes in, among other things, reservoir performance, prices, economic conditions and governmental restrictions.

Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use. Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis, on the following basis:

Office equipment	5 years
Motor vehicles	5 years
Fixtures and fittings	10 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised.

The gain or loss arising on the disposal or retirement of other fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sales transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such an asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the year in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and oil price fluctuations, including interest rate caps and oil price put options.
Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting year. The resulting gain or loss is recognised in the consolidated statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of income depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset while a derivative with a negative fair value is recognised as a financial liability.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured.

Revenue represents the value of sales exclusive of related sales taxes of oil and gas arising from upstream operations when the oil has been lifted and the title has passed.

Interest income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Royalties

Royalties that do not meet the definition of an income tax under IAS 12 are accounted for in the consolidated statement of income in the same year as the income to which they relate and are included within operating expenses. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Inventories

Crude oil is valued at fair value less costs to sell. Any changes arising on the revaluation of inventories are recognised in the consolidated statement of income. Other inventories comprising mainly of spare parts, materials and supplies are valued at cost, determined on a weighted average cost basis, less allowance for any obsolete or slow-moving items. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in USD, which is the functional and presentation currency of the Company.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the consolidated statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the consolidated statement of income in the year in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in the consolidated statement of income on disposal of the net investment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in USD using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in the consolidated statement of income in the year in which the foreign operation is disposed of.

Contingencies

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated financial statements unless the outflow of resources embodying economic benefits is probable and the amount of the obligation can be measured reliably. They are disclosed as contingent liabilities unless the possibility of an outflow of resources embodying economic benefits is remote.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A decommissioning provision is calculated as the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of each field in the removal and decommissioning of the production, storage and transportation facilities currently in place. The cost of recognising the decommissioning provision is included as part of the cost of the relevant property, plant and equipment and is thus charged to the consolidated statement of income on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible non-current assets. The unwinding of the discount on the decommissioning provision is included within finance costs.

Employee Benefits

The liability recognised in the balance sheet in respect of defined benefit plan is the present value of the defined benefit obligation at the end of the reporting year less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the year in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Certain of the Company's subsidiaries are subject to taxes on income in various foreign jurisdictions. The taxation charge represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the consolidated statement of financial position date.

The Group is subject to various forms of taxation in the countries in which it operates. These include income tax on profits, royalties on production, sales taxes on revenues generated, and payroll taxes on benefits to employees.

The income tax expense recognised relates only to Area A in Egypt, where tax is levied on taxable profits, and hence falls under the scope of IAS 12. For the other Egypt assets held under production sharing contracts and in other jurisdictions the primary forms of taxation are production related and are deducted at source as government share of oil in line with PSC terms. As such, these production taxes are not considered to constitute income tax as defined by IAS 12, and accordingly government share is netted off revenue in line with the nature of the transactions.

Deferred tax
Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements of the relevant subsidiaries and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Critical accounting judgements

Carrying value of intangible exploration and evaluation assets
The amounts for intangible exploration and evaluation assets ("E&E") represent active exploration projects. These amounts will be written off to the income statement as exploration costs unless commercial reserves are established or the determination process is not completed and there are no indications of impairment in accordance with the Group's accounting policy. The process of determining whether there is an indicator of impairment or calculating the impairment requires critical judgement.

The key areas in which management have applied judgement are as follows: the Group's intention to proceed with a future work programme for a prospect or licence; the likelihood of licence renewal or extension; and the success of a well result or geological or geophysical survey. Further details are provided in note 13.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Recoverability of exploration and evaluation costs
Under the Group's accounting policy for E&E costs, such costs are capitalised as intangible assets, and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to the asset with which question is associated, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value. Note 13 disclose the carrying amounts of the Group's E&E assets as well as details of impairment charges arising during the year.

Impairment of oil and gas properties
Determining whether oil and gas properties are impaired requires management to estimate the future net revenue from oil and gas reserves attributable to the Group's interest in that field. This requires significant estimates to be made including, future oil and gas prices, production volumes, capital/operating expenditures and an asset specific discount rate. The Group also operates in certain countries with heightened geopolitical exposure and risk of challenge in respect of licence terms. In particular,

(a) The Group has assumed, taking into consideration third party legal advice, that it will be able to extend the Block 5 licence in Yemen by 545 days, as a result of lost production days, without which there would be a material impairment charge; and
(b) The Group has capitalised costs of USD 26.7 million on the Mansuriya field which is located in North East Iraq where the political and security situation is currently unstable. Further details are provided in note 14.

Commercial reserves
Calculation of the recoverable value of oil and gas properties and depletion calculations require estimates to be made of quantities of commercial oil and gas reserves, which are based on estimates determined by Kuwait Energy's qualified petroleum engineers and are subject to third party verification. Management believes these reserves to be commercially productive and will provide revenues to the Group adequate to recover remaining net un-depreciated and un-depleted capitalised oil and gas properties as at 31 December 2014.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (continued)

Convertible loans fair value
As outlined in note 24, the total finance charge associated with the Group's convertible loans, which are held at fair value, depends on the exercise of certain conversion or prepayment options by the lenders and the Company which are future events and inherently uncertain. At the balance sheet date the Group has assessed the fair values of the loans based on their best estimate of the relative likelihood of the occurrence of each conversion or prepayment option.

5. SEGMENTAL INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The information reported to the Group's chief operating decision maker for the purposes of resource allocation and assignment of segment performance is specifically focused on the geographical area (country). All of the segment revenue reported below is from external customers.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the operating profit earned by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- there are no assets used jointly by any reportable segment; and
- there are no liabilities for which any segment is jointly liable other than the borrowings (note 23) amounting to USD 242.5 million (2013: USD 104.5 million) which has been utilised jointly by the Company, Kuwait Energy Egypt Ltd and Kuwait Energy Iraq Limited. The facilities from Deutsche Bank and International Finance Corporation have been repaid in full during the year 2014.

No revenue or assets arose in or relate to Jersey, the Company's country of domicile, in either year.

Other operations include discontinued operations, unallocated expenditure and net liabilities of corporate nature. The liabilities comprise the Company's external debt and other non-attributable corporate liabilities. The unallocated capital expenditure for the year comprises the acquisition of non-attributable corporate assets.

Revenue from major products and services
The Group's revenues from oil and gas are disclosed in note 6 to these consolidated financial statements.

Information about major customers
The Group's largest customer is EGPC. Revenue for the year from EGPC, which all arises in the Egypt segment, was approximately USD 213,612 thousand (2013: USD 193,487 thousand). The Group's other major customer is Exxon Mobil in Yemen and the revenue for the year from Exxon Mobil was USD 48,048 thousand (2013: USD 54,916 thousand), all of which arose in the Yemen segment.

5. SEGMENTAL INFORMATION (CONTINUED)

The following is an analysis of the Group's revenue and results by reportable segments:

	Egypt	Yemen	Iraq	Others	Total
	USD 000's	USD 000's	USD 000's	USD 000's	USD 000's
31 December 2014					
Segment revenues	213,612	57,147	-	-	270,759
Segment results	124,454	(22,086)	-	(25,542)	76,826
Share of results of Joint Venture	-	-	-	1,040	1,040
Fair value loss on convertible loans					(9,931)
Other income					653
Foreign exchange loss					(273)
Finance costs					(12,773)
Profit before tax					55,542
Taxation charges					(8,800)
Profit for the year from continuing operations					46,742
Loss from discontinued operations					(4,039)
Profit for the year					42,703
Segment assets	396,606	114,065	259,712	165,144	935,527
E&E assets	16,694	29,794	-	-	46,488
PP&E	214,841	59,932	245,202	2,562	522,537
Segment liabilities	49,799	22,448	63,103	383,665	519,015
Other information					
Exploration expenditure written off	1,513	-	-	-	1,513
Impairment of oil and gas assets	-	19,247	-	-	19,247
Additions to E&E	15,452	11,984	29,383	-	56,819
Additions to PP&E	66,019	11,080	131,100	1,127	209,326
Depreciation, Depletion and Amortisation	46,627	35,526	-	1,352	83,505

5. SEGMENTAL INFORMATION (CONTINUED)

	Egypt USD 000's	Yemen USD 000's	Iraq USD 000's	Others USD 000's	(Restated) Total USD 000's
31 December 2013					
Segment revenues	193,487	69,007	-	-	262,494
Segment results	84,042	(5,407)	(146)	(63,992)	14,497
Share of results of Joint Venture	-	-	-	1,543	1,543
Gain on held for trading derivative					322
Fair value loss on convertible loans					(12,071)
Other income					599
Foreign exchange loss					(3,762)
Finance costs					(10,068)
Loss before tax					(8,940)
Taxation charges					(8,097)
Loss for the year from continuing operations					(17,037)
Loss from discontinued operations					(278,787)
Loss for the year					(295,824)
Segment assets	372,226	148,608	94,494	175,740	791,068
E&E assets	13,039	17,810	27,329	-	58,178
PP&E	184,028	103,624	57,411	3,904	348,967
Segment liabilities	45,770	13,523	30,183	331,382	420,858
Other information					
Exploration expenditure written off	35,308	11,204	-	45,195	91,707
Impairment of oil and gas assets	-	1,801	-	-	1,801
Additions to E&E	20,034	9,584	27,329	23,718	80,665
Additions to PP&E	38,232	5,822	33,704	21,313	99,071
Depreciation, Depletion and Amortisation	39,997	34,352	-	1,616	75,965

6. REVENUE

	Year ended 2014 USD 000's	(Restated) Year ended 2013 USD 000's
Oil sales	270,759	262,494
	270,759	262,494

7. COST OF SALES

	Year ended 2014 USD 000's	(Restated) Year ended 2013 USD 000's
Operating costs	58,651	54,175
Depletion and amortisation of oil and gas assets (note 14)	81,853	74,053
	140,504	128,228

8. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 2014 USD 000's	(Restated) Year ended 2013 USD 000's
Staff costs charged to administrative expenses	10,953	10,250
Professional and consultancy fees	11,233	6,279
Depreciation of other assets (note 14)	1,652	1,912
Others	8,831	7,820
	32,669	26,261

A proportion of the Group's staff costs are recharged to the Group's joint venture partners, a proportion is allocated to operating costs and a proportion is capitalised into the cost of fixed assets under the Group's accounting policy for exploration evaluation and production assets, with the remainder classified as an administrative overhead cost in the income statement, as shown above.

9. FINANCE COSTS

	Year ended 2014 USD 000's	(Restated) Year ended 2013 USD 000's
Unwinding of the discount on decommissioning provision	104	158
Borrowing costs on bank overdrafts and loans	22,409	14,552
Less: amount capitalised in cost of qualifying assets	(9,740)	(4,642)
	12,773	10,068

Borrowing costs of USD 7,304 thousand (2013: USD 3,587 thousand) have been capitalised to PP&E during the year and USD 2,436 thousand (2013: USD 1,055 thousand) have been capitalised to intangible exploration and evaluation assets.

Borrowing costs on bank overdrafts and loans in 2014 includes USD 6,455 thousand of fees previously capitalised as non-current assets which have been expensed in the period on the repayment of the facilities. See note 23.

10. TAXATION

	Year ended 2014	Year ended 2013
	USD 000's	USD 000's
Tax on profit on ordinary activities		
Current tax:		
UK (Jersey) tax	-	-
Foreign tax	8,800	8,097
Total Corporation tax	8,800	8,097

Corporation tax in the Company's country of domicile is calculated at 0% on assessable profits for all years shown, this rate being the applicable statutory tax rate for international businesses that are tax resident in Jersey.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. During 2014, the Egyptian government announced a temporary 5% income tax effective for the next three years effective from 2014 until 2016 on any profits above one million Egyptian pounds, in addition to the already existing income tax regime, applied at progressive rates up to 25%. Kuwait Energy (Eastern Desert) Petroleum Services SAE, will be subject to this additional 5% income tax.

No taxation charge or credit arose in connection with the discontinued operations or in their disposal in current year (2013: tax gain of USD 5,658 thousand).

Factors affecting the tax charge for the year
The difference between the amount of total tax shown above and the amount calculated by applying the standard rate of Jersey corporation tax to the profit before tax is as follows:

	Year ended 2014	Year ended 2013
	USD 000's	USD 000's
Profit/(loss) on ordinary activities before tax (restated)	55,542	(8,940)
Tax on Company profit on ordinary activities at corporation tax rate of 0%	-	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	8,800	8,097
Total taxation charge on profit for the year	8,800	8,097
Other comprehensive income on ordinary activities before tax	812	137
Tax on Company profit on ordinary activities at corporation tax rate of 0%	-	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	-	-
Total taxation charge on other comprehensive income for the year	-	-

Deferred taxation

There are no material unrecognised deferred tax assets at either year end, nor any material unprovided deferred tax arising on the unremitted earnings of subsidiaries.

11. DISCONTINUED OPERATIONS

During 2013 the management of the Group resolved to dispose of the Group's Russia and Ukraine operations as a part of its strategy to focus on Middle East and North Africa (MENA) region operations. These operations, which were expected to be sold within 12 months from initial classification, were classified as held for sale and presented separately in the balance sheet. The results of these operations are classified under discontinued operations and have been included in the consolidated income statement as follows.

	Year ended 2014	Year ended 2013
	USD 000's	USD 000's
Revenue	9,211	23,363
Expenses	(10,124)	(52,246)
Exploration expenditure written off on discontinued operations	-	(18,622)
Impairment and other charges on discontinued operations	(3,126)	(236,940)
Loss before tax	(4,039)	(284,445)
Attributable tax gain	-	5,658
Net loss attributable to discontinued operations	(4,039)	(278,787)

During the year 2014, the Group has completed the disposal of its assets in Ukraine and Russia. The assets in Ukraine have been disposed of for a sale consideration equal to their net carrying value at 31 December 2013 of USD 5,000 thousand which has been received in full. The assets in Russia were disposed of for a sale consideration of USD 8,300 thousand which has been received in full. As consideration for the sale of assets in Russia was lower than the net carrying value as at 31 December 2013, an additional impairment of USD 1,700 thousand has been charged to the consolidated income statement.

Further, during 2014 in settlement of the outstanding obligation in relation to the 2010 acquisition of the Luzskoye and Chikshinskoe assets in Russia, 514 thousand shares of the Company were issued to the shareholders of Concorde Oil and Gas Limited as conversion of the earn out notes (note 21). The issue price of the shares of USD 1,426 thousand has been charged to the consolidated income statement.

The loss for 2013 from discontinued operations includes an impairment charge of USD 236,940 thousand of which USD 89,031 thousand arose in Russia and USD 147,909 thousand in Ukraine. The 2013 impairment includes a charge of USD 8,766 thousand relating to the recycling of amounts previously recorded within the foreign currency translation reserve.

The major classes of assets and liabilities of discontinued operations classified as held for sale are as follows.

	2014	Russia and Ukraine 2013
	USD 000's	USD 000's
Property, plant and equipment	-	32,236
Deferred tax assets	-	11,103
Inventories	-	1,094
Trade and other receivables	-	5,900
Cash and cash equivalents	-	941
Total assets classified as held for sale	-	51,274
Trade and other payables	-	15,611
Deferred tax liabilities	-	20,663
Total liabilities classified as held for sale	-	36,274
Net assets of operations classified as held for sale	-	15,000

11. DISCONTINUED OPERATIONS (CONTINUED)

The cash flows associated with Russia and Ukraine operations classified as held for sale are as follows:

	Year ended 2014	Year ended 2013
	USD 000's	USD 000's
Operating cash flows	(913)	(2,440)
Investing cash flows	13,300	(18,450)
Total cash flows	12,387	(20,890)

12. EARNINGS PER SHARE

a) Basic earnings per share

The earnings and weighted average number of shares used in the calculation of basic earnings per share are as follows:

	Year ended 2014	(Restated) Year ended 2013
	USD 000's	USD 000's
Profit/(loss) for the year from continuing operations attributable to owners of the Company	46,750	(17,037)
Loss for the year from discontinued operations	(4,039)	(278,787)
Profit/(loss) for the year from continuing and discontinued operations attributable to owners of the Company	42,711	(295,824)

	Year ended 2014	(Restated) Year ended 2013
Weighted average number of shares, net of treasury shares, for the purpose of basic earnings per share (thousands)	328,609	325,034
Basic earnings/(loss) per share (cents) from continuing operations attributable to owners of the Company	14.2	(5.2)
Basic loss per share (cents) from discontinued operations attributable to owners of the Company	(1.2)	(85.8)
Basic earnings/(loss) per share (cents) from continuing and discontinued operations attributable to owners of the Company	13.0	(91.0)

b) Diluted earnings per share

There was no difference between basic and diluted earnings per share for any of the years shown.

The only potential dilutive instruments were the convertible loans, disclosed in note 24. However, the related impact on dilutive earnings per share is not included in the calculation as the number of shares that could be exercised is dependent on certain future events.

13. INTANGIBLE EXPLORATION AND EVALUATION ('E&E') ASSETS

	E&E assets
Cost	USD 000's
As at 1 January 2013 (restated)	87,842
Additions	80,665
Exploration expenditure written off in relation to discontinued operations (see note 11)	(18,622)
Exploration expenditure from continuing operations written off	(91,707)
As at 31 December 2013 (restated)	58,178
Additions	56,819
Exploration expenditure written off	(1,513)
Transfer to Property, plant and equipment (note 14)	(66,996)
As at 31 December 2014	46,488

As at 31 December 2014, exploration costs of USD 46,488 thousand (2013: USD 58,178) were capitalised pending further evaluation of whether or not the related oil and gas properties are commercially viable. This figure includes USD 29,794 thousand in Yemen where, as described in note 33, the political and security situation has become unstable subsequent to the year end.

Exploration cost USD 56,712 thousand relating to Block 9 in Iraq and USD 10,284 relating to BEA and Abu Sennan in Egypt was transferred to property, plant and equipment in 2014 as commercial reserves were established during the year.

During 2014, the Company has written off unsuccessful exploration expenditure amounting to USD 1,513 thousand related to BEA field in Egypt.

Unsuccessful exploration expenditure written off in 2013 of USD 91,707 thousand includes USD 29,181 thousand relating to Licence 1 in Latvia and USD 1,095 thousand relating to Somalia where, due to unsuccessful exploration results, the Group has decided to exit the country. Further the Company has written off unsuccessful exploration expenditure amounting to USD 35,308 thousand relating to Abu Sennan, Area A and Block 6 in Egypt, USD 11,204 thousand relating to the Block 83 in Yemen and USD 14,919 thousand relating to the Jherruk and Kunri fields in Pakistan.

The additions to exploration and evaluation assets include USD 2,436 thousand (2013: USD 1,055 thousand) of finance costs on qualifying assets capitalised during the year using a weighted average interest rate of 8.45% (2013: 6.62%).

14. PROPERTY PLANT AND EQUIPMENT

	Oil and gas assets	Other fixed assets	Total
Cost	USD 000's	USD 000's	USD 000's
As at 1 January 2013 (restated)	690,509	14,440	704,949
Additions	96,202	2,869	99,071
Acquisition of subsidiary (note 15)	129,922	-	129,922
Reclassified as held for sale (note 11)	(331,625)	-	(331,625)
As at 31 December 2013 (restated)	585,008	17,309	602,317
Additions	208,196	1,130	209,326
Disposal	-	(15)	(15)
Transfer from Intangible Exploration and Evaluation (note 13)	66,996	-	66,996
As at 31 December 2014	860,200	18,424	878,624

14. PROPERTY PLANT AND EQUIPMENT (CONTINUED)

	Oil and gas assets	Other fixed assets	Total
	USD 000's	USD 000's	USD 000's
Accumulated Depreciation, depletion, amortisation and impairment			
As at 1 January 2013 (restated)	233,259	4,774	238,033
Charge for the year	74,053	1,912	75,965
Impairment	1,801	-	1,801
On assets reclassified as held for sale (note 11)	(62,449)	-	(62,449)
As at 31 December 2013 (restated)	246,664	6,686	253,350
Charge for the year	81,853	1,652	83,505
Impairment	19,247	-	19,247
Disposal	-	(15)	(15)
As at 31 December 2014	347,764	8,323	356,087
Carrying amount			
As at 31 December 2014	512,436	10,101	522,537
As at 31 December 2013	338,344	10,623	348,967

The additions to oil and gas assets include USD 7,304 thousand (2013: USD 3,587 thousand) of finance costs on qualifying assets capitalised during the year using a weighted average interest rate of 8.45% (2013: 6.62%) and USD 3,816 thousand (USD 3,612 thousand) of fair value loss on convertible loans capitalised. It also includes an increase in estimated decommissioning cost of USD 9,420 thousand (2013: USD 1,160 thousand).

The property, plant and equipment of certain subsidiary undertakings with a net book value of nil (2013: USD 280,069 thousand) are under registered mortgage to secure certain bank loans (see note 23).

In 2014 due primarily to the fall in prevailing oil prices, the Group recognised an impairment loss of USD 19,247 thousand on the Block 5 field in Yemen (2013: USD 1,541 thousand) and USD nil (2013: USD 260 thousand) on the Block 43 field in Yemen. These impairments reduce the carrying value of the assets to their recoverable values of USD 59,800 thousand (Block 5) and nil (Block 43) measured on a value in use basis. The key assumptions used in the 2014 impairment test included a post-tax discount rate of 10%, a 545 day licence extension (see below), a Brent oil price of USD 68/bbl in 2015, USD 83/bbl in 2016, USD 93/bbl in 2017, inflated at 2% per annum thereafter. The oil price assumptions are management's best estimate based on conditions prevailing at the balance sheet date, and take into consideration the views of a reputable third party broker. If the balance sheet date forward curve had been used, it would have increased the impairment charge by approximately USD 15,000 thousand for Block 5.

In Yemen, the Group's Block 5 licence will expire on 8 June 2015, but as a result of lost production days due to the security situation in Yemen, the Group is entitled under the force majeure mechanisms of the contract to extend the Block 5 licence period for 545 days (until 5 December 2016) as at 31 December 2014. Although discussions are ongoing with the Yemeni government, the Group is still awaiting a final determination. Subsequent to year end the Block 5 partners have issued an arbitration notice to the relevant Yemen authorities in relation to this matter. If the Group is unable to obtain an extension of the full 545 days from the Yemeni government, the Group will lose up to 545 days of anticipated production from Block 5, and may also be required to surrender its licence in respect of the Block 5. This would trigger an additional impairment charge, based on prevailing oil prices at 31 December 2014, of up to approximately USD 48.6 million. No such impairment charge has been recorded as the Group believe, taking into consideration independent legal advice, that its application for the additional 545 days is in accordance with the licence terms.

As at 31 December 2014 the Group had property, plant and equipment with a carrying value of USD 26,700 thousand in relation to the Mansuriya field located in North East Iraq where, during 2014, the political and security situation has become unstable. The work of operations on site has been put on hold. However, management believes that in the longer term the situation will be resolved and that no impairment is required in the current year.

15. ACQUISITION OF SUBSIDIARIES

2014 restructuring

The original holding company of the Group was Kuwait Energy Company K.S.C. (Closed) (KEC). The 2011 Restructuring transferred most of the then-existing subsidiaries and assets held by KEC to the Company, and transferred, by way of a capital reduction, 90.0% of the ordinary shares of the Company then held by KEC to the existing shareholders of KEC at that time. As a result of the 2011 Restructuring, the Company became the Group holding company and KEC, although under common control, was no longer part of the Group. Economic transfer agreements were implemented as part of the 2011 restructuring between KEC and the Group in order to retain the risks and rewards of assets legally owned by subsidiaries of KEC within the Group, as a result of which the Group consolidated these assets in prior periods. These agreements included the rights and responsibility for the obligations in respect of KEC's interest in the Block 9 service agreement (KEC's only material asset) but did not cover KEC itself.

During 2014, the Company has obtained control of KEC through the mechanism described below (the KEC Restructuring) and has consolidated it as a subsidiary for the year ended 31 December 2014.

In July 2014 Awal II Shares and Securities Co. SPC (Awal II), an SPV incorporated in the GCC member state of Bahrain, began to acquire legal ownership of the KEC shares. Existing KEC shareholders were invited to transfer their shares in KEC to Awal II in exchange for new shares in the Company on a one-for-one basis.

The Company has obtained full control over KEC and has acquired KEC's economic risks and rewards by entering into the following arrangements:

(1) A management agreement between the Company and Awal II under which the management of, and all operational decision making power over, Awal II, is vested solely in the Company; and
(2) A "total return swap" agreement between Awal II and the Company, under which Awal II is obliged to pay the Company an amount equal to any economic returns derived from its ownership of the KEC shares.

At 31 December 2014, 87.8% of the shares in KEC had been exchanged. Shareholders who had not exchanged their shares by this date, representing 12.2% of the KEC shares, are shown as a non-controlling interest in the consolidated balance sheet of the Group.

For accounting purposes this represents a reorganisation of entities under common control and is outside the scope of IFRS 3 "Business Combinations". This restructuring has therefore been accounted using the principles of merger accounting. Under this method:

- the consolidated assets and liabilities of KEC and related entities, were recognised and measured at the pre-restructuring carrying amounts, without restatement to fair value;
- the results and cash flows of KEC are brought into the consolidated financial statement of the Company from the beginning of the financial year 2014 in which the combination occurred;
- the difference between the historical carrying amounts of net assets acquired and consideration paid has been recognised as a merger reserve.

	USD 000's
Current assets	
Financial assets at fair value through profit or loss*	72,000
Current assets and current liabilities	
Advance for investment	1,949
Cash and cash equivalents	451
Due to related party	(472)
Other payables	(18)
Non-current liabilities	
Retirement benefit obligation	(1,959)
Net assets acquired	**71,951**

15. ACQUISITION OF SUBSIDIARIES (CONTINUED)

2014 restructuring (continued)

*This represents 31,750 thousand shares of the Company held by KEC. After combination, as at 31 December 2014 it has been classified as treasury shares of the Group (note 22) in the consolidated balance sheet. Subsequent to the year ended 31 December 2014, these shares have been purchased by the Company and directly held as treasury shares.

	USD 000's
Consideration settled by way of share for share exchange	60,842
Non-controlling interest in the subsidiary acquired	8,778
	69,620
Net assets acquired	(71,951)
Difference between the historical carrying amounts of net assets acquired and consideration paid has been recognised as a merger reserve	**(2,331)**

Acquisition of Jannah Hunt Oil Company in 2013

On the 31 January 2013 the Group completed the acquisition of 100% of Jannah Hunt Oil Company (JHOC) by acquiring its shares, a company with oil and gas assets in Yemen. The acquisition of JHOC added a 15% participating interest in the producing Block 5 licence. The transaction had an effective date of 1 October 2012 but completed on 31 January 2013 and this is therefore the acquisition date. The transaction is accounted for in 2013 as a business combination in accordance with IFRS 3, 'Business Combinations'.

	Fair value on acquisition USD 000's
Non-current assets	
Property, plant and equipment	129,922
Current assets and current liabilities	
Inventories	8,098
Trade and other receivables	175
Cash and cash equivalents	961
Trade and other payables	(4,466)
Non-current liabilities	
Future decommissioning provision	(965)
Purchase consideration paid in cash	**133,725**

USD 30 million was paid in 2012 and was recognised as advance for subsidiary on the balance sheet at 31 December 2012.

The total purchase consideration equals the aggregate of the fair value of the identifiable assets and liabilities of JHOC and therefore no goodwill has been recorded on acquisition. The fair value is arrived at by Level 3 fair value measurements.

Transaction costs of USD 996 thousand in respect of the acquisition were recognised in the 2013 consolidated income statement.

From the date of acquisition to 31 December 2013, JHOC contributed USD 54.9 million to Group revenues and a profit of USD 4.6 million to the profit of the Group. If the acquisition had been completed on the first day of 2013, Group revenues and loss for the year would have been USD 267.1 million and USD 295.4 million respectively.

16. INVESTMENT IN JOINT VENTURE

The Group owns a 20% equity interest in Medco L.L.C. ("Medco"), a jointly controlled entity incorporated in Oman, engaged as operator for Karim Small fields in Oman. In accordance with IFRS 11 Joint Arrangements, the Group has determined its interest in Medco to be a Joint Venture and accordingly accounts for it using the equity method (see note 2).

Movement in investment in Joint Venture

	2014 USD 000's	2013 USD 000's
As at 1 January	10,598	9,055
Share of profit of Medco	1,040	1,543
Dividend received from Medco	(3,500)	-
As at 31 December	8,138	10,598

Summarised financial statement information (100%) of Medco, based on its IFRS financial statements adjusted to bring the accounting policies of Medco in line with those of the Group, and reconciliation with the carrying amount of the investment in the Group's consolidated financial statements are set out below:

Selected information from Medco financial statements	2014 USD 000's	2013 USD 000's
Cash and cash equivalents	18,214	19,849
Other current assets	31,516	31,900
Non-current assets	5,535	8,859
Current liabilities	(25,087)	(24,227)
Dividend payable	(10,000)	-
Non-current liabilities	(332)	(295)
Equity	19,846	36,086
Group's 20% equity interest in Medco		
Medco equity attributable to the Group	3,969	7,217
Medco dividend payable attributable to the Group	2,000	-
Adjustments made to bring the accounting policies of Medco in line with those of the Group*	2,169	3,381
Carrying amount of the Group's interest in Medco	8,138	10,598

Selected information from Medco financial statements	Year ended 2014 USD 000's	Year ended 2013 USD 000's
Revenue	107,466	109,490
Operating cost	(91,356)	(94,103)
Amortization	(3,325)	(3,325)
Taxation charges	(1,525)	(1,452)
Profit and total comprehensive income for the year	11,260	10,610
Group's 20% equity interest in Medco		
Group's share of profit of Medco	2,252	2,122
Adjustments made to bring the accounting policies of Medco in line with those of the Group*	(1,212)	(579)
Share of results from Medco recognised in consolidated income statement	1,040	1,543

*Adjustment represents impact of capitalisation of oil and gas assets development expenditures in accordance with the Group's accounting policy which have been charged to the income statement of Medco.

17. OTHER NON-CURRENT ASSETS

	2014	2013
	USD 000's	USD 000's
Decommission and retirement benefit obligation fund	5,141	-
Unamortised initial transaction cost of loan facilities	-	6,455
	5,141	6,455

Decommission and retirement benefit obligation fund relates to amounts held in an escrow account to settle liabilities of environmental restoration and end of service benefit obligation of Block 5 in Yemen.

18. INVENTORIES

	2014	2013
	USD 000's	USD 000's
Crude oil	3,433	4,656
Spare parts, materials and supplies	18,209	19,493
	21,642	24,149

Crude oil is measured at net realisable value. Spare parts, materials and supplies are used in operations and are not held for re-sale.

19. TRADE AND OTHER RECEIVABLES

	2014	(Restated) 2013
	USD 000's	USD 000's
Trade receivables	73,604	124,785
Advance to joint ventures partners	31,081	17,989
Prepayments, deposits and advances	7,270	13,458
Other receivables	3,634	7,621
	115,589	163,853

The average credit period on sales is 60 days. No interest is charged on the overdue trade receivables.

Included in the Group's trade receivables balance are debtors arising in Egypt which are past due at the reporting date for which the Group has not made any provision as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Ageing of past due but not impaired	2014	2013
	USD 000's	USD 000's
61 – 90 days	13,159	15,858
91 – 120 days	-	-
121 – 180 days	14,144	-
> 180 days	12,100	73,672
Total	39,403	89,530

Subsequent to the year end the Company has recovered the entire balance outstanding with EGPC at 31 December 2014 of USD 66,249 thousand. Between January and April 2015 USD 27,750 thousand was received directly from EGPC and a further USD 50,513 thousand was recovered through the cargo sale mechanism.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Management believes that there is no credit provision required as all the trade receivables are fully collectible.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

20. CASH AND CASH EQUIVALENTS

	2014	(Restated) 2013
	USD 000's	USD 000's
Cash and cash equivalents	215,992	127,594
	215,992	127,594

Bank balances amounting to USD 500 thousand (2013: USD 31,183 thousand) are restricted against issue of letters of guarantee, debt service accrual account and cash retention account related to term loans.

21. SHARE CAPITAL

The authorised share capital of the Company consists of 451.2 million shares of one Pound Sterling each, amounting to Pound Sterling 451.2 million (2013: 450.7 million). The issued and paid up share capital at 31 December 2014 consists of 357.2 million Shares (2013: 327.3 million).

During the year, the Company issued 28 million shares to the shareholders of KEC in accordance with the terms of share acquisition of KEC approved in Annual General Meeting 2013 and 2014 (note 15). Further, the Company issued 1.4 million shares (2013:1.2 million) to employees as part of the employee incentive scheme and 0.5 million shares to the shareholders of Concorde Oil and Gas Limited for settlement of outstanding obligation in relation to the 2010 acquisition of the Luzskoye and Chikshinskoe assets in Russia (note 11).

In the previous year, the Company issued 3.2 million shares to the International Finance Corporation (IFC) in accordance with the terms of the 2010 share subscription agreement.

22. OTHER RESERVES

	Treasury shares	**Merger reserve**	**Foreign currency translation reserve**	**Retirement benefit reserve**	**Total**
	USD 000's	USD 000's	USD 000's	USD 000's	USD 000's
At 1 January 2013	-	(36,140)	(8,766)	-	(44,906)
Other comprehensive income for the year	-	-	8,766	137	8,903
At 31 December 2013	-	(36,140)	-	137	(36,003)
Other comprehensive income for the year	-	-	-	812	812
Acquisition of subsidiary (note 15)	(72,000)	2,331	-	-	(69,669)
Purchase of treasury shares (note 32)	(1,749)	-	-	-	(1,749)
At 31 December 2014	(73,749)	(33,809)	-	949	(106,609)

23. BORROWINGS

	2014		2013	
	USD 000's	USD 000's	USD 000's	USD 000's
	Non-current	**Current**	**Non-current**	**Current**
Senior guaranteed notes (a)	242,459	-	-	-
Long-term loans (b)	-	-	88,867	75,649
	242,459	-	88,867	75,649

(a) Senior guaranteed notes

The details of Senior guaranteed notes are as follows:

	2014
	USD 000's
Par value payable on maturity	250,000
Initial transaction fees	(8,201)
Fees amortised and included in finance cost during 2014	660
Non-current portion of Senior guaranteed notes	**242,459**
Interest accrued and payable within 12 months (included in trade and other payables)	9,896
Carrying value as at 31 December 2014	252,355

During 2014, the Group issued USD 250 million aggregate principal amount of 9.5% Senior guaranteed notes due 2019 (the "Notes"). Interest on the Notes will be paid semi-annually in arrears on 4 February and 4 August, commencing on 4 February 2015. The Notes have been admitted by the Irish Stock Exchange for listing and trading on the Global Exchange Market. The proceeds received from the Notes was net of amounts used to repay the outstanding balances under the Reserve Based Facilities and the Arab Bank Facility (see below). The remaining proceeds, after fees, are being used to fund capital expenditure of the Group, particularly in respect of the Group's assets in Iraq and for general corporate purposes.

The Notes are callable in whole, or, in part, at the option of the Group prior to maturity (subject to certain conditions being satisfied).

(b) Long-term loans

The details of the loans are as follows:

	2014	2013
	USD 000's	USD 000's
USD 165 million facility from Deutsche Bank Syndicate that bears a floating interest rate of LIBOR plus 5% per annum.	-	104,516
USD 60 million facility from Arab Bank that bears an interest rate of LIBOR plus 5% per annum.	-	60,000
	-	164,516

The reserve based facility from the Deutsche Bank Syndicate of USD 165 million was secured by pledges on the assets of the subsidiary Kuwait Energy Egypt Ltd. The facility from Arab Bank was secured by assigning the rights, title, benefits and interest in the shares of JHOC Limited to the bank as security. Further, receipts under the crude oil sales agreement with Exxon Worldwide Trading Company were assigned to the bank as security.

The amounts outstanding under the Reserve Based Facilities from the Deutsche Bank Syndicate and the Arab Bank Facility were repaid in full on 4 August 2014 from the proceeds of the Notes (see above).

Initial transaction costs were capitalised as other non-current assets and amortised using effective the effective interest rate applicable. The balance outstanding at 31 December 2013 of USD 6,455 thousand, has been charged in full to the income statement as a finance cost in 2014 on the settlement of the loans and closure of the facilities.

24. CONVERTIBLE LOANS

	2014	2013
	USD 000's	USD 000's
Non-current portion	111,740	105,807
Current portion	6,089	6,744
	117,829	112,551

Movement in convertible loan

	31.12.2014	31.12.2013
	USD 000's	USD 000's
As at 1 January	112,551	87,244
Amount drawdown	-	17,000
Change in fair value	13,747	15,683
Payment of coupon interest	(8,469)	(7,376)
As at end of the year	117,829	112,551

During 2012, the Group entered into unsecured financing arrangements with Abraaj Capital and Qatar First Bank for USD 150 million each (total value of USD 300 million). Under the arrangements, the group has drawn down an amount of USD 100 million, of which USD 83 million was drawn down in 2012 and USD 17 million was drawn down in 2013. Of the USD 200 million remaining undrawn on the loans USD 50 million has expired and the residual USD 150 million is subject to certain additional conditions precedent. The loans are repayable in three equal instalments payable at every six month interval starting from 66th month from the first draw down date.

A variety of conversion options exist: if the Group undertakes a public offering of shares raising at least $150 million of equity (a "Qualifying IPO"), there is mandatory conversion; if no such offering has occurred in the 36 month year following the first draw down of each loan, the Company has the option for early repayment together with prepayment premium; alternatively the loans may run to term.

The loans carry a coupon interest of 10.5%/ 8% and if the options are not exercised, the outstanding loans, without additional interest, are repaid in cash as per the repayment schedule.

Should a conversion option be exercised, the outstanding loans, the coupon interest and an additional interest uplift will be converted into the equity shares of the Company. The additional interest uplift is 8% if conversion is within 36 months of the first draw down and 12% if conversion is after this time (total effective interest rate of 12.5% / 11.4% respectively).

If the conversion options are exercised, the outstanding loans, together with the additional interest uplift outlined above, are convertible into shares of the Company based on the fair value of the shares on the conversion date. These embedded options are in the nature of embedded derivatives which have been determined not to be closely related to the loan arrangements. The group has opted to recognise the convertible loans as financial liabilities at fair value through the income statement based on the Company's best estimate at the balance sheet date of the relative likelihood of the occurrence of each conversion or prepayment option.

The change in fair value since the prior year arises as a result of changes in the forecasted cash flows. Of this amount USD 3,816 thousand (2013: USD 3,612 thousand) has been capitalised to qualifying assets in the year, see note 14, resulting in a net charge to the income statement of USD 9,931 thousand (2013: USD 12,071 thousand).

The convertible loans are classified as Level 3 in the fair value hierarchy in all the years presented. Level 3 fair value measurements are those derived from inputs that are not based on observable market data (unobservable inputs). The group uses a discounted cash flow technique to determine the fair value of the loans. The significant inputs considered in the valuation are likelihood and timing of an equity offering and the discount rate. The discount rate used was in the range of 15-16%. Changing the likelihood and timing assumptions in the fair value measurement could have a maximum impact of increasing the liability by USD 6,319 thousand or reducing the liability by USD 13,026 thousand.

25. LONG-TERM PROVISIONS

	2014	2013
	USD 000's	USD 000's
Decommissioning provision	12,433	3,013
Retirement benefit obligation	3,264	3,243
	15,697	6,256

a) Decommissioning provision

The movement in the decommissioning provision over the year is as follows:

	2014	2013
	USD 000's	USD 000's
As at 1 January	3,013	1,989
Unwinding of discount	104	158
New provisions and changes in estimate	9,316	1,002
Reclassified as held for sale	-	(136)
As at end of the year	12,433	3,013

The provision for decommissioning relates to two of the Group's fields and is based on the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of each field (currently estimated as being 2016 and 2023 for the two fields respectively) in the removal and decommissioning of the facilities currently in place. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to base the provision. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain. The significant increase during 2014 was primarily due to the receipt of an updated third party estimate in respect of one of the fields. The Group uses a discount rate of 5% in arriving at the future value of decommissioning provisions.

b) Retirement benefit obligation

The group has a post-employment defined benefit obligation towards its non-Kuwaiti employees which is an End-of-Service (ESB) plan governed by Kuwait Labor Law. The entitlement to these benefits is conditional upon the tenure of employee service, completion of a minimum service year, salary drawn etc. The Group also has a defined benefit obligation in respect of the Block 5 in Yemen. These are unfunded plans where the group meets the benefit payment obligation as it falls due.

The movement in these defined benefit obligations over the year is as follows:

	2014	2013
	USD 000's	USD 000's
As at 1 January	3,243	1,482
Current service cost	1,066	2,150
Interest expense	-	113
Re-measurements:		
Experience gains	(812)	(137)
Benefits paid	(233)	(365)
As at end of the year	3,264	3,243

The significant actuarial assumptions were as follows:

	2014	2013
Discount rate	5%	5%
Inflation	4%	4%
Salary growth rate	6%	6%

26. TRADE AND OTHER PAYABLES

	2014	(Restated) 2013
	USD 000's	USD 000's
Trade Payables	86,911	70,729
Accruals and joint venture partners payables	31,150	14,516
Accrued interest payable	10,388	3,756
Salaries and bonus payables	5,204	3,000
	133,653	92,001

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit year taken for trade purchases is 30 days. No interest is charged on the overdue trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates their fair value.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2014	2013
	USD 000's	USD 000's
Financial liabilities carried at fair value through profit or loss		
Held for trading derivatives not designated in hedge accounting relationships (interest rate cap - see below)	-	162

The Group's derivative financial instruments are all classified as Level 2 in all years. Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices). The reduction in the fair value amounting to USD nil for the year ended 31 December 2014 (2013: USD 322 thousand) was recognised in the consolidated income statement.

Derivatives used for hedging purposes but which do not meet the qualifying criteria for hedge accounting are classified as 'Held for trading derivatives'.

Interest rate cap is an agreement to cap the interest rate on facilities at 2% when the LIBOR is more than 2% and equal to or less than 5%. This agreement matured on 30 June 2014.

The notional amounts of interest rate cap together with the fair value is summarised as follows:

Held for trading Derivatives

	Notional principal value		Fair value (Negative)/ Positive	
	2014	2013	2014	2013
	USD 000's	USD 000's	USD 000's	USD 000's
-Interest rate cap	-	50,000	-	(162)

28. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

	2014	2013
	USD 000's	USD 000's
a) Contingent liabilities - letters of guarantee	500	1,628
b) Capital commitments (other than covered by letters of guarantee)	58,531	116,400

Capital commitment includes committed exploration drilling and seismic expenditures as specified in the licence.

29. OPERATING LEASE ARRANGEMENTS

	2014	2013
	USD 000's	USD 000's
Minimum lease payments under operating leases recognised in the consolidated statement of income	1,527	1,810

At the consolidated statement of financial position date, the Group had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

	2014	2013
Within one year	1,423	1,442
Between two years and five years	58	12
	1,481	1,454

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one to two years and rentals are fixed for an average of two years with an option to extend for a further two years at the then prevailing market rate.

30. FINANCIAL INSTRUMENTS

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3 to these consolidated financial statements.

Categories of financial instruments

	2014	(Restated) 2013
	USD 000's	USD 000's
Financial assets		
Trade and other receivables	108,319	150,395
Cash and cash equivalents	215,992	127,594
Financial liabilities		
At amortised cost		
- Borrowings	252,355	88,867
- Current portion of borrowings	-	75,649
- Trade and other payables	128,449	89,001
At fair value through profit and loss account (FVTPL)		
-Designated as FVTPL - convertible loans	117,829	112,551
-Derivative financial instruments	-	162

Fair value measurement

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. Financial instruments comprise of financial assets and financial liabilities.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices that are observable for assets or liabilities either directly (as prices) or indirectly (derived from prices); and

Level 3: inputs for assets or liabilities that are not based on observable market data.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement (continued)

Fair value measurement hierarchy for financial assets and financial liabilities that are carried at fair value is as follows:

31 December 2014	Level 1 USD 000's	Level 2 USD 000's	Level 3 USD 000's	Total USD 000's
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit and loss account (FVTPL):				
- Convertible loans	-	-	117,829	117,829
31 December 2013				
Financial assets measured at fair value				
Assets classified as held for sale	-	-	51,274	51,274
Financial liabilities measured at fair value				
Liabilities directly associated with assets classified as held for sale	-	-	36,274	36,274
Financial liabilities at fair value through profit and loss account (FVTPL):				
- Convertible loans	-	-	112,551	112,551
- Derivative financial instruments	-	162	-	162

There were no transfers between Level 1, Level 2 and Level 3 fair value measurements during the year.

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting year.

	2014		2013	
	Asset classified as held for sale (net)	Convertible loans	Asset classified as held for sale (net)	Convertible loans
	USD 000's	USD 000's	USD 000's	USD 000's
Asset/(liability) at 1 January	15,000	(112,551)	-	(87,244)
Amounts drawndown	-	-	-	(17,000)
Additions/repayment	2,339	8,469	293,787	7,376
Losses arising in the year/change in fair value	(4,039)	(13,747)	(278,787)	(15,683)
Proceeds from disposal	(13,300)	-	-	-
Asset/(liability) at 31 December	-	(117,829)	15,000	(112,551)
Total losses for the year included in profit or loss for assets held at the end of the reporting year	4,039	9,931*	278,787	12,071*

*Net of amounts capitalised within finance costs of USD 3,816 thousand (2013: USD 3,612 thousand) (see note 24).

Fair values of all financial instruments are not materially different from their carrying values.

(a) For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

(b) Fair value of borrowings (note 23) approximates carrying value which is recognised at amortised cost.

(c) Financial assets and liabilities that are measured subsequent to initial recognition at fair value are derivatives (note 27) and convertible loans (note 24).

30. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives

The Group's management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including commodity price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. The group seeks to manage this risk by using derivatives to hedge interest rate risk.

Market risk

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

The Group is exposed to international commodity-based markets. As a result, it can be affected by changes in crude oil, natural gas and petroleum product prices and interest rates and foreign exchange rates.

Price risk management
Volatility in oil and gas prices is a pervasive element of the Group's business environment.

The Group is a seller of crude oil, which is typically sold under short-term arrangements priced in USD at current market prices. In previous years the Group used oil put options to manage the risks of volatility in crude oil prices. At the end of the current year the Group has not hedged its exposure to oil price risk.

The Group does not sell gas under any long-term agreements.

Price risk management (continued)
The following table illustrates the sensitivity of the profit for the year to a reasonably possible change in oil and gas prices by +10%. A positive number below indicates an increase in profit and decrease in price will have the opposite effect.

	Year ended 2014	(Restated) Year ended 2013
	USD 000's	USD 000's
Impact on consolidated statement of income	27,076	26,249

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2014	2013	2014	2013
	USD 000's	USD 000's	USD 000's	USD 000's
Egyptian Pound	-	-	22,935	3,425
Kuwaiti Dinar	33	22	3,441	3,125
Ukraine Hryvnia	-	5,642	-	5,110
Russian Rouble	-	4,778	-	4,466

30. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Foreign currency sensitivity analysis
The Group's main foreign currency exposure is to fluctuations in the Kuwait Dinar and Egyptian Pound.

The following table details the Group's sensitivity to a 10% increase and decrease in the USD against Kuwaiti Dinar and Egyptian Pound. The sensitivity analysis includes only outstanding Kuwaiti Dinar and Egyptian Pound denominated monetary assets and liabilities and adjusts their translation at the year end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and a negative number indicates decrease in profit. All other variables are held constant. There have been no changes in the methods and the assumptions used in the preparation of the sensitivity analysis.

	Year ended 2014	Year ended 2013
Impact on consolidated statement of income	USD 000's	USD 000's
Egyptian Pound	2,294	343
Kuwaiti Dinar	341	310

Interest rate risk management
The Group is exposed to interest rate risk as it has borrowed funds from banks and financial institutions and has placed funds in interest bearing time deposits with banks during the year.

The Group is exposed to interest rate risk because the entities within the Group borrow funds at both floating and fixed interest rates. This risk is mitigated by the Group by maintaining an appropriate mix of floating and fixed rate borrowings.

The Group's exposure to interest rates on financial assets and liabilities are detailed in the liquidity risk management section of this note.

The following table illustrates the sensitivity of the profit for the year to a reasonably possible change in interest rates of + 1% with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each consolidated statement of financial position date. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

A positive number below indicates an increase in profit and negative number indicates decrease in profit. A 1% decrease in the interest rates would have the opposite effect.

	Year ended 2014	Year ended 2013
	USD 000's	USD 000's
Impact on consolidated statement of income	-	(1,645)

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. On-going credit evaluation is performed on the financial condition of accounts receivable.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management (continued)

During the year ended 31 December 2014, 79% of total revenue (2013:74%) was derived from the sales to the Group's largest counterparty, EGPC and 18% of total revenue (2013: 21%) was derived from sales to Exxon Mobil. Further details of the Group's receivables with EGPC and Exxon Mobil are provided in note 4 ("Debtor recoverability") and note 19. The Group defines counterparties as having similar characteristics if they are related entities.

Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Exposure to credit risk

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

	2014	(Restated) 2013
	USD 000's	USD 000's
Trade and other receivables	108,319	150,395
Cash and cash equivalents	215,992	127,594
	324,311	277,989

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2014	(Restated) 2013
	USD 000's	USD 000's
Egypt	66,249	115,824
Yemen	7,355	8,961
	73,604	124,785

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the management, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and s funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its financial liabilities (including interest). The tables have been drawn up based on the undiscounted cash flows of financial liabilities.

Financial liabilities	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total	Weighted average effective interest rate
	USD 000's	USD 000's	USD 000's	USD 000's	USD 000's	%
At 31 December 2014						
Borrowings	23,750	47,500	297,500	-	368,750	10.6%
Convertible loans	9,250	35,500	89,585	-	134,335	12.0%
Trade and other payables	128,449	-	-	-	128,449	
	161,449	83,000	387,085	-	631,534	

30. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (continued)

At 31 December 2013						
Borrowings	84,436	93,447	-	-	177,883	6.62%
Convertible loans	8,000	16,000	96,796	17,169	137,965	16%
Trade and other payables (restated)	89,001	-	-	-	89,001	-
	181,437	109,447	96,796	17,169	404,849	

The group has access to financial facilities as described in notes 23 and 24. The group expects to meet its other obligations from operating cash flows.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of debt and equity balance. The Group's overall strategy remains unchanged during 2014.

The capital structure of the Group consists of equity comprising issued share capital (note 21), share premium, other reserves (note 22) and retained deficit.

Gearing ratio

The gearing ratio at year end was as follows:

	2014	(Restated) 2013
	USD 000's	USD 000's
Total debt (i)	360,288	277,067
Less: Cash and cash equivalents	(215,992)	(127,594)
Net debt	144,296	149,473
Equity attributable to owners of the Company	407,742	370,210
Net debt to equity ratio (%)	35.4	40.4

(i) Debt is defined as borrowings as detailed in note 23 and convertible loans as detailed in note 24.

31. SUBSIDIARY AND JOINT VENTURE COMPANIES

a) The principal subsidiaries of the Company at 31 December 2014 were as follows:

Company's name	**Ownership %**		**Country of incorporation**	**Country of operations**	**Type of activity**
	31.12.14	**31.12.13**			
Kuwait Energy International Limited	100	100	Jersey	Egypt/ Yemen	Holding Company
Kuwait Energy Company K.S.C.(Closed)	87.8	-	Kuwait	Kuwait	Exploration / development/ production
KEC (Egypt) Ltd	100	100	British Virgin Islands	Egypt	Development/ production
Kuwait Energy Egypt Ltd	100	100	British Virgin Islands	Egypt	Exploration / development/ production
Kuwait Energy (Eastern Desert) Petroleum Services SAE	100	100	Egypt	Egypt	Exploration / development/ production
KEC (Yemen) Ltd	100	100	British Virgin Islands	Yemen	Exploration / development/ production
Kuwait Energy AMED Yemen Ltd	100	100	British Virgin Islands	Yemen	Exploration
Kuwait Energy Iraq Limited	100	100	British Virgin Islands	Iraq	Exploration / development/ production
KE Netherlands Coöperatief U.A.	100	100	Netherlands	Ukraine/ Latvia/ Russia	Holding Company
Kuwait Energy Ukraine	-	100	Ukraine	Ukraine	Exploration/ Production
Pechora Energy Company	-	100	Russia	Russia	Exploration/ Production
Jannah Hunt Oil Company Limited	100	100	British Virgin Islands	Yemen	Development/ production

b) The group has a 20% interest in Medco LLC. Medco LLC is the operator for Karim Small fields in Oman.

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32. RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors and executive officers of the Group, their families and companies of which they are the principal owners. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the year 2014, a restructuring of the Group was undertaken in July 2014 to bring KEC, the parent Company prior to the restructuring in 2011, into the Group. As approved in the 2013 Annual General Meeting of the Company and ratified in the 2014 Extraordinary General Meeting of the Company, shares of KEC have been acquired from its shareholders for new ordinary shares of the Company on a 1:1 basis (note 15).

The other related party transactions and balances included in the Group's consolidated financial statements are as follows:

a) Compensation of key management personnel:

Key management personnel are considered to be the Board of Directors of the Company.

The remuneration of key management personnel during the year was as follows:

	Year ended 2014	Year ended 2013
	USD 000's	USD 000's
Salaries and other short-term benefits	1,456	1,667
Consultancy fees paid to non-executive director	296	296
Post-employment benefits	32	33
Share-based payments	-	346
	1,784	2,342
b) Agreement to purchase shares	10,000	11,000

The current Deputy Chief Executive Officer (Dy. CEO), previously Chief Operating Officer, of the Group has entered into an agreement with a third party on behalf of the Group to purchase a specified number of shares of the Company held by that third party. Depending on the outcome of certain future events, and unless otherwise agreed, the Group may be required to lend the Dy. CEO the purchase price of the shares, approximately USD 10 million, until such time as the Dy. CEO is able to sell the shares and repay the loan to the Company. The Company anticipates that, as and when the Dy. CEO is required to purchase shares from the third party, it will purchase them from the Dy. CEO and hold them as treasury shares.

During 2014, under the arrangement described above, the Dy. CEO was required to purchase 792,741 ordinary shares of the Company at a price of KWD 0.620 per share (totalling USD 1,749 thousand). The Company lent the Dy. CEO the funds to complete this transaction. Shareholder approval to buy back these shares from the Dy. CEO was obtained in October 2014 and the Company now holds these shares as treasury shares (note 22). The loan to the Dy. CEO was repaid to the Company in the year.

33. SUBSEQUENT EVENTS

a) On 16 July 2014, KEC signed a farm out agreement to assign to EGPC a 10% working interest share in the Block 9 exploration, development and production service contract in Iraq, with an effective date of 1 July 2013. The conditions precedent have been satisfied and the deed of assignment is now in the process of being signed by all relevant parties (EGPC, KE, Dragon Oil and SOC).

b) Subsequent to the year end, agreement was signed for purchase of an additional 25% interest in BEA field in Egypt from Gharib Oil Fields effective 15 January 2015. This is still subject to final approval from EGPC.

c) As at 31 December 2014 the Group had property, plant and equipment with a carrying value of USD 59,932 thousand and intangible exploration assets with a carrying value of USD 29,794 thousand in Yemen where, subsequent to the year end, the political and security situation has become unstable. However, management believes that in the longer term the situation will be resolved and that no additional impairment is required. Between January and April 2015, two cargoes were lifted from the Block 5 field. However, as at the end of April 2015, operations are shut in along with other nearby producing blocks largely as a result of no spare storage capacity at the offshore terminal at Ras Issa port, and the concession is currently under Force Majeure. Non-Yemeni employees have been withdrawn for their safety and security, Yemeni employees remain on site and the facility remains available for the use of the Group.

Glossary & Definitions

Abbreviation	Definition
#	Number
1P	proven reserves
2C	contingent resources mid-case recoverable volume
2P	proven plus probable reserves
3D	three dimensional
3P	proven, probable and possible reserves
AAPG	American Association of Petroleum Geologist
AAPG Suez	American Association of Petroleum Geologist Suez
ADC	Arabian Drilling Company
ADEP	Awaiting Development with Exploration Potential
AGM	Annual General Meeting
APEGA	Association of Professional Engineers and Geoscientists of Alberta
B.Sc.	Bachelor of Science
Barrel	The standard of crude oil or other petroleum product contains 42 US gallons, 35 Imperial gallons or 159 litres
bbl	Barrel
Bcf	billion cubic feet
BEA	Burj El Arab
BOD	Board of Director
Boe	barrels of oil equivalent
boepd	barrels oil equivalent per day
bopd	barrels of oil per day
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CPF	Central Production Facilities
CSR	Corporate Social Responsibility
E&P	Exploration and Production
EA	Exploration Asset
EGPC	Egyptian General Petroleum Corporation
EIS	Employee Incentive Scheme
EPS	earnings per share
ERQ	East Ras Qattara
EVCA	Extra-Value Creation Awards
G&A	General and Administrative
GCA	Gaffney, Cline & Associates
GOR	Gas-oil ratio
HAZOP	Hazard and Operability Study
HR	Human Resources
HSSE	Health, safety, sustainability and environment
IFRS	International Financial Reporting Standards
ISC	International Standards Certification
ISO	International Organization for Standardization
KBE	Knight Commander of the Most Excellent Order of the British Empire
KOC	Kuwait Oil Company
KSF	Karim Small Fields
KUFPEC	Kuwait Foreign Petroleum Exploration Company
LTI	Lost Time In Incidents
LTIP	Long Term Incentive Plan
M&A	Mergers and Acquisitions
MA	Master of Arts
MENA	Middle East and North Africa
mbbl	million barrels
mmboe	million barrels of oil equivalent
mmscf/d	million metric standard cubic feet per day
mscf	thousand standard cubic feet
NHEPL	New Horizon Exploration & Production Limited, Pakistan
PAEP	Producing Asset with Exploration Potential
Ph.D.	Doctorate
PRMS	Petroleum Resources Management System
PSTM	Pre-Stack Time Migration
QFIB	Qatar First Investment Bank (which has recently changes its name to Qatar First Bank)
RemCo	Remuneration Committee
RRR	reserves replacement ratio; derived using total reserves additions in a period/total production in same period
scf	standard cubic feet
SCU	Suez Canal University
SEG	Society of Exploration Geophysicists
SID	Senior Independent Director
SOC	South Oil Company
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
sq. km	square kilometre
STIP	Short Term Incentive Plan
TPAO	Turkish Petroleum Corporation
TRIFR	Total Recordable Incidents Frequency Rate
UK	United Kingdom
US$	United States Dollars
USA	United States of America
VP	Vice President
VSMP	Voluntary Share Matching Plan
WI	Working Interest: a company's interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms
WIGs	Wildly Important Goals
YE13	Year-end 2013
YE14	Year-end 2014

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