

KUWAIT ENERGY PLC GROUP



CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED AND UNREVIEWED)

FOR THE NINE MONTHS ENDED

30 SEPTEMBER 2015

CONDENSED CONSOLIDATED INCOME STATEMENT

Nine months ended 30 September 2015

		Nine months ended 30 September		Year ended
		2015	2014	31 December
		Unaudited	Unaudited	2014
			(Restated)	Audited
	Notes	USD 000's	USD 000's	USD 000's
Continuing Operations				
Revenue		125,162	211,482	270,759
Cost of sales		(108,145)	(98,492)	(140,504)
Gross profit		17,017	112,990	130,255
Exploration expenditure written off	3	(2,519)	(1,611)	(1,513)
Impairment of oil and gas assets		-	-	(19,247)
Profit on farm-out of working interest	4	35,000	-	-
General and administrative expenses		(14,319)	(20,150)	(32,669)
Operating profit		35,179	91,229	76,826
Share of results of Joint Venture	5	2,071	2,900	1,040
Fair value loss on convertible loans		(12,296)	(9,100)	(9,931)
Other income		1,084	457	653
Foreign exchange loss		(1,789)	(41)	(273)
Finance costs		(7,004)	(14,516)	(12,773)
Profit before tax		17,245	70,929	55,542
Taxation charge	1	(1,768)	(8,212)	(8,800)
Profit for the period from continuing operations		15,477	62,717	46,742
Discontinued operations				
Loss for the period from discontinued operations		-	(2,600)	(4,039)
Profit for the period		15,477	60,117	42,703
Attributable to:				
Owners of the Company		15,481	60,117	42,711
Non-controlling interests		(4)	-	(8)
		<u>15,477</u>	<u>60,117</u>	<u>42,703</u>
Earnings per share from continuing operations attributable to owners of the Company				
- Basic (cents)	2	<u>4.7</u>	<u>19.1</u>	<u>14.2</u>
- Diluted (cents)	2	<u>4.7</u>	<u>19.1</u>	<u>14.2</u>
Earnings per share from continuing and discontinued operations attributable to owners of the Company				
- Basic (cents)	2	<u>4.7</u>	<u>18.3</u>	<u>13.0</u>
- Diluted (cents)	2	<u>4.7</u>	<u>18.3</u>	<u>13.0</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Nine months ended 30 September 2015

	Nine months ended 30 September		Year ended
	2015	2014	31 December
	Unaudited	Unaudited (Restated)	2014 Audited
	USD 000's	USD 000's	USD 000's
Profit for the period	<u>15,477</u>	<u>60,117</u>	<u>42,703</u>
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of retirement benefit obligation	<u>-</u>	<u>101</u>	<u>812</u>
Other comprehensive income for the period	<u>-</u>	<u>101</u>	<u>812</u>
Total comprehensive income for the period	<u><u>15,477</u></u>	<u><u>60,218</u></u>	<u><u>43,515</u></u>
Attributable to:			
Owners of the Company	15,481	60,218	43,523
Non-controlling interests	<u>(4)</u>	<u>-</u>	<u>(8)</u>
	<u><u>15,477</u></u>	<u><u>60,218</u></u>	<u><u>43,515</u></u>

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 period.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2015

		30 September 2015 Unaudited USD 000's	31 December 2014 Audited USD 000's
	Notes		
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	3	42,856	46,488
Property, plant and equipment	4	625,032	522,537
Investment in Joint Venture	5	8,209	8,138
Other non-current asset		4,102	5,141
		<u>680,199</u>	<u>582,304</u>
Current assets			
Inventories		25,662	21,642
Trade and other receivables	6	74,136	115,589
Liquid investments	7	50,000	-
Cash and cash equivalents	7	109,969	215,992
		<u>259,767</u>	<u>353,223</u>
Total assets		<u>939,966</u>	<u>935,527</u>
EQUITY AND LIABILITIES			
Equity			
Share capital		559,835	557,808
Share premium		205,491	204,760
Other reserves		(106,389)	(106,609)
Retained deficit		(232,736)	(248,217)
Equity attributable to owners of the Company		<u>426,201</u>	<u>407,742</u>
Non-controlling interest		<u>5,788</u>	<u>8,770</u>
Total equity		<u>431,989</u>	<u>416,512</u>
Non-current liabilities			
Borrowings		242,880	242,459
Convertible loans		123,313	111,740
Long-term provisions		15,827	15,697
Obligations under finance lease		4,113	-
		<u>386,133</u>	<u>369,896</u>
Current liabilities			
Trade and other payables	8	116,446	133,653
Current tax payable		1,521	9,377
Current portion of convertible loans		1,976	6,089
Obligations under finance lease		1,901	-
		<u>121,844</u>	<u>149,119</u>
Total liabilities		<u>507,977</u>	<u>519,015</u>
Total equity and liabilities		<u>939,966</u>	<u>935,527</u>

Manssour Aboukhamseen
Chairman & Managing Director

KUWAIT ENERGY PLC**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Nine months ended 30 September 2015



	Share capital	Share premium	Other reserves	Retained deficit	Total	Non-controlling interest	Total equity
	USD 000's	USD 000's	USD 000's	USD 000's	USD 000's	USD 000's	USD 000's
Balance at 1 January 2014 (Audited)	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	46,785	14,057	(69,669)	-	(8,827)	8,778	(49)
Purchase of treasury shares	-	-	(1,749)	-	(1,749)	-	(1,749)
Issue of shares for prior year business combination	822	604	-	-	1,426	-	1,426
Issue of shares under incentive scheme	2,369	790	-	-	3,159	-	3,159
Balance at 31 December 2014 (Audited)	557,808	204,760	(106,609)	(248,217)	407,742	8,770	416,512
Profit/(loss) for the period	-	-	-	15,481	15,481	(4)	15,477
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	15,481	15,481	(4)	15,477
Issue of shares	2,027	731	220	-	2,978	(2,978)	-
Balance at 30 September 2015 (Unaudited)	559,835	205,491	(106,389)	(232,736)	426,201	5,788	431,989

In 2015, the Company purchased 31.75 million KE plc shares at a price of Kuwaiti Dinar 0.620 per share from its subsidiary Kuwait Energy Company K.S.C. (Closed) ("KEC") at a book value of USD 72.0 million which are now being directly held as treasury shares. Treasury shares have been included under 'other reserves' in equity. There was no impact in the consolidated equity, as in the consolidated financial statements of 2014, these shares were already classified under treasury shares on the acquisition of KEC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Nine months ended 30 September 2015

	Note	Nine months ended 30 September		Year ended
		2015	2014	31 December
		Unaudited	Unaudited	2014
			(Restated)	Audited
		USD 000's	USD 000's	USD 000's
OPERATING ACTIVITIES				
Profit for the period		15,477	60,117	42,703
Adjustments for:				
Share of results of Joint Venture		(2,071)	(2,900)	(1,040)
Depreciation, depletion and amortisation		65,010	59,540	83,505
Exploration expenditure written off		2,519	1,611	1,513
Impairment of oil and gas assets		-	-	19,247
Impairment charge on discontinued operations		-	1,700	3,126
Profit on farm-out of working-interest		(35,000)	-	-
Tax charges		1,768	8,212	8,800
Share based expense		-	-	1,066
Foreign exchange loss		1,789	-	-
Fair value loss on convertible loans		12,296	9,100	9,931
Finance costs		7,004	14,516	12,773
Interest income		(967)	(412)	(568)
Provision for retirement benefit obligation		505	717	1,066
Operating cash flow before movement in working capital		68,330	152,201	182,122
Decrease/(increase) in trade and other receivables		32,995	(44,828)	48,277
(Decrease)/increase in trade and other payables		(31,912)	33,684	29,954
Decrease/(increase) in inventories		1,290	(1,625)	1,223
Tax paid		(9,624)	(8,521)	(8,521)
Net cash generated by operating activities		61,079	130,911	253,055
INVESTING ACTIVITIES				
Purchase of intangible exploration and evaluation assets		(9,213)	(45,400)	(49,797)
Purchase of property, plant and equipment		(111,195)	(130,228)	(186,093)
Purchase of other fixed assets		(7,625)	(811)	(1,110)
(Increase)/decrease in capital inventory stores		(5,310)	126	1,284
Proceeds from farm-out of working interests		43,190	-	-
Proceeds from disposal of assets classified as held for sale		-	5,000	13,300
Withdrawal from/(additions to) decommission and retirement benefit obligation fund		1,050	-	(5,141)
Net cash (outflow)/inflow from acquisition of assets/subsidiary		(3,857)	499	451
Increase in liquid investments		(50,000)	-	-
Dividend received from Joint Venture		2,000	3,500	3,500
Interest received		743	213	568
Net cash used in investing activities		(140,217)	(167,101)	(223,038)
FINANCING ACTIVITIES				
Proceeds from borrowings		-	127,054	127,054
Repayment of borrowings		-	(48,735)	(48,735)
Proceeds from finance lease		5,902	-	-
Purchase of treasury shares		-	-	(1,749)
Finance costs paid		(31,274)	(13,578)	(18,189)
Net cash (used)/generated by financing activities		(25,372)	64,741	58,381
Net (decrease)/increase in cash and cash equivalents		(104,510)	28,551	88,398
Cash and cash equivalents at beginning of the period		215,992	127,594	127,594
Effect of foreign exchange rate changes on cash and cash equivalents		(1,513)	-	-
Cash and cash equivalents at end of the period	7	109,969	156,145	215,992

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

Nine months ended 30 September 2015

1. TAXATION

	Nine months ended 30 September 2015 Unaudited USD 000's	2014 Unaudited USD 000's	Year ended 31 December 2014 Audited USD 000's
Tax on profit on ordinary activities			
Current tax:			
UK (Jersey) tax	-	-	-
Foreign tax	1,768	8,212	8,800
Total Corporation tax	<u>1,768</u>	<u>8,212</u>	<u>8,800</u>

2. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period after taxation attributable to owners of the Company from continuing operation of USD 15,481 thousand (30 September 2014: USD 62,717 thousand, 31 December 2014: USD 46,750 thousand), the profit for the period after taxation attributable to owners of the Company from continuing and discontinued operation of USD 15,481 thousand (30 September 2014: USD 60,117 thousand, 31 December 2015: USD 42,711 thousand) and a weighted average number of shares, net of treasury shares, of 326,137 thousand (September 2014: 328,494 thousand, 31 December 2014: 328,609).

There was no difference between basic and diluted earnings per share for any of the periods shown. The only potential dilutive instruments were the convertible loans. 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.

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

	E&E assets USD 000's
As at 1 January 2014	58,178
Additions	56,819
Exploration expenditure written off	(1,513)
Transfer to Property, plant and equipment	<u>(66,996)</u>
As at 31 December 2014	46,488
Additions	9,386
Exploration expenditure written off	(2,519)
Transfer to Property, plant and equipment	<u>(10,499)</u>
As at 30 September 2015	<u>42,856</u>

During the period ended 30 September 2015, the Company has written off unsuccessful exploration expenditure amounting to USD 2,519 thousand related to Area A field in Egypt (31 December 2014: USD 1,513 thousand related to BEA field in Egypt).

During the period ended 30 September 2015 exploration cost associated with proven commercial reserves amounting USD 10,499 thousand relating to Abu Sennan in Egypt (2014: USD 56,712 thousand relating to Block 9 in Iraq and USD 10,284 thousand to BEA and Abu Sennan in Egypt) were transferred to property, plant and equipment.

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

Nine months ended 30 September 2015

4. 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 2014 (audited)	585,008	17,309	602,317
Additions	208,196	1,130	209,326
Disposal	-	(15)	(15)
Transfer from Intangible Exploration and Evaluation	66,996	-	66,996
As at 31 December 2014 (audited)	860,200	18,424	878,624
Additions	142,953	8,352	151,305
Acquisition of asset	16,769	-	16,769
Disposal	(35,942)	-	(35,942)
Transfer from Intangible Exploration and Evaluation	10,499	-	10,499
As at 30 September 2015 (unaudited)	994,479	26,776	1,021,255
Accumulated Depreciation, depletion, amortisation and impairment			
As at 1 January 2014 (audited)	246,664	6,686	253,350
Charge for the period	81,853	1,652	83,505
Impairment	19,247	-	19,247
Disposal	-	(15)	(15)
As at 31 December 2014 (audited)	347,764	8,323	356,087
Charge for the period	64,287	723	65,010
Disposal	(24,874)	-	(24,874)
As at 30 September 2015 (unaudited)	387,177	9,046	396,223
Carrying amount			
As at 30 September 2015 (unaudited)	607,302	17,730	625,032
As at 31 December 2014 (audited)	512,436	10,101	522,537

The Group completed the acquisition of an additional 25% working interest effective 15 January 2015 in the Burg El Arab (BEA) field in Egypt from Gharib Oil Fields ('Gharib') for a purchase consideration of USD 21,361 thousand. The purchase was accounted for as an asset acquisition rather than a business combination. The net cash outflow arising on the acquisition was USD 3,984 thousand, which excludes USD 127 thousand cash acquired. The remaining consideration was settled with receivables due from Gharib. Property, plant and equipment (PP&E) assets with a gross cost of USD 22,204 thousand were acquired, however the net PP&E additions from the transaction were USD 16,769 thousand as USD 5,435 thousand had been capitalised in prior periods under the terms of a carry arrangement with Gharib.

The Board approved an exit from Yemen Block 43 effective 30 June 2015. As at 30 June 2015, the carrying value of Yemen Block 43 was nil (31 December 2014: nil) and following the disposal the associated costs and accumulated depreciation have been removed with no income statement impact.

On 30 September 2015 the Group completed the assignment of a 10% participating interest in Block 9 exploration, development and production service contract in Iraq to Egyptian General Petroleum Corporation (EGPC), with an effective date of 1 July 2013, resulting in a profit of USD 35,000 thousand. The Group now has a 60% share in Block 9.

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

Nine months ended 30 September 2015

5. INVESTMENT IN JOINT VENTURE

	30 September 2015 Unaudited USD 000's	31 December 2014 Audited USD 000's
As at 1 January	8,138	10,598
Share of profit of Medco	2,071	1,040
Dividend received from Medco	(2,000)	(3,500)
As at 30 September/ 31 December	<u>8,209</u>	<u>8,138</u>

The Investment in Joint Venture represents a 20% equity interest in Medco L.L.C. ("Medco"), a jointly controlled entity incorporated in Oman, engaged as operator for Karim Small fields ("KSF") in Oman and are entitled to a 75% working interest in production. On 28 April 2015, Medco signed a new 25 year service contract for KSF, commencing from 1 June 2015. The Group has provided a bank guarantee of USD 7,500 thousand to perform obligations under the new service contract (see note 7).

6. TRADE AND OTHER RECEIVABLES

	30 September 2015 Unaudited USD 000's	31 December 2014 Audited USD 000's
Trade receivables	19,725	73,604
Advance to joint ventures partners	35,653	31,081
Other receivables	5,190	3,634
Prepayments, deposits and advances	10,968	7,270
Amount due from a related party	2,600	-
	<u>74,136</u>	<u>115,589</u>

Ageing of trade receivables past due but not impaired

	30 September 2015 Unaudited USD 000's	31 December 2014 Audited USD 000's
61 – 90 days	2,939	13,159
91 – 120 days	-	-
121 – 180 days	-	14,144
> 180 days	-	12,100
Total	<u>2,939</u>	<u>39,403</u>

7. CASH AND CASH EQUIVALENTS

	30 September 2015 Unaudited USD 000's	31 December 2014 Audited USD 000's
Cash and bank balances	159,969	215,992
Less:		
Liquid investments (bank deposits with an original maturity of over 3 months)	(50,000)	-
	<u>109,969</u>	<u>215,992</u>

Bank balances amounting to USD 7,500 thousand (31 December 2014: USD 500 thousand) are restricted against issue of letters of guarantee for the life of the guarantee, which shall remain valid for the exploration period plus six months.

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

Nine months ended 30 September 2015

8. TRADE AND OTHER PAYABLES

	30 September 2015 Unaudited USD 000's	31 December 2014 Audited USD 000's
Trade Payables	88,122	86,911
Accruals and joint venture partners payables	23,240	31,150
Accrued interest payable	4,016	10,388
Salaries and bonus payables	1,068	5,204
	<u>116,446</u>	<u>133,653</u>

9. RETROSPECTIVE RESTATEMENT

As described in note 2 of the financial statements for the year ended 31 December 2014, the Group voluntarily changed their accounting policy for the intangible exploration and evaluation assets from “modified full cost method” to the “successful efforts method”. The impact of this change in accounting policy on the annual financial statements is explained fully in note 2 of the 31 December 2014 Group financial statements which are available on the Group’s website. The impact of this change in accounting policy to the results for the 9 months ended 30 September 2014 has resulted in an increase in profit by USD 2,249 thousand and EPS by 0.7 cents for the corresponding reported period due to a decrease in the ‘depletion and amortisation of oil and gas assets’ by USD 2,249 thousand. The decrease in the ‘depletion and amortisation of oil and gas assets’ charge relates to the fact that these assets, which were previously being depleted in 2014, were retrospectively written off in a previous period as a result of the adoption of the successful efforts method, resulting in a reduction of the depletion and amortisation charge in 2014.