

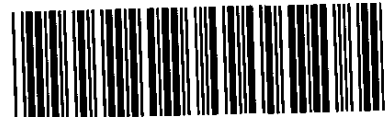
21/11

Kuwait Petroleum Corporation And Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2004

TUESDAY



A7IMDD03

A13

13/11/2018

#195

COMPANIES HOUSE

- P.O. Box 74 Safat
13001 Safat, Kuwait
Souk As Safat, 3rd Floor
Abdullah Mubarak Street
- Tel : 245 2880
Fax: 245 6419
Email: kuwait@kw.ey.com

BDO BURGAN - INTERNATIONAL ACCOUNTANTS
ALI AL-HASAWI & Co. - Member of BDO International
P.O. Box 11001 Safat 13004 Kuwait
National Industrial Complex - Building 1012
Tel: 245 4111 Fax: 245 4112
Email: kuwait@bdo.com.kw

His Excellency, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
Chairman of the Supreme Council for Petroleum and
The Prime Minister
State of Kuwait

We have audited the accompanying consolidated balance sheet of Kuwait Petroleum Corporation and subsidiaries (the Group) as of 31 March 2004, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

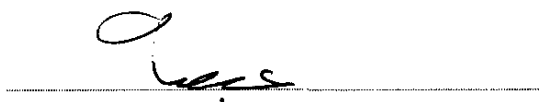
We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 March 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion, proper books of account have been kept by the Corporation and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that the consolidated financial statements include the disclosures required by Law Decree No. 6 of 1980, that we obtained all the information and explanations that we required for the purpose of our audit, that an inventory was duly carried out, and that to the best of our knowledge and belief no violations of Law Decree No. 6 of 1980 have occurred during the year ended 31 March 2004 that might have had a material effect on the business of the Group or on its financial position.



WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG



ALI A. AL HASAWI
LICENCE NO. 30 A
BDO BURGAN
INTERNATIONAL ACCOUNTANTS

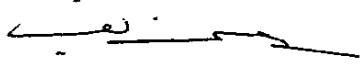
30 June 2004
State of Kuwait

Kuwait Petroleum Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEET

At 31 March 2004

		2004 KD'000	2003 KD'000
ASSETS	<i>Notes</i>		
CURRENT ASSETS			
Bank balances and cash	3	808,391	456,799
Trade receivables	4	1,105,410	1,208,465
Inventories	5	653,034	695,289
Other receivables and prepayments	6	422,210	318,475
Taxes receivable	7	8,213	10,734
Total current assets		2,997,258	2,689,762
INVESTMENTS			
Securities	8	4,523,614	3,654,215
Associates		358,123	370,343
Total investments		4,881,737	4,024,558
Cost in excess of fair value of identifiable net assets acquired	9	70,713	63,524
Other non-current assets	10	617,134	472,347
Fixed assets	11	3,118,358	2,734,292
TOTAL ASSETS		11,685,200	9,984,483
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade payables		369,419	344,764
Other credit balances	12	28,146	26,766
Other payables and accruals	13	365,012	416,299
Taxes payable	7	172,705	129,834
Amounts due to Ministry of Energy	14	725,792	686,753
Profit to be distributed	15	487,724	460,307
Total current liabilities		2,148,798	2,064,723
NON-CURRENT LIABILITIES	16	394,846	208,920
MINORITY INTERESTS		226	208
EQUITY			
Authorised and paid-up capital		2,500,000	2,500,000
Statutory reserve	17	1,098,220	1,037,245
Capital reserve	18	232,945	232,945
General reserve	19	1,734,175	1,673,200
Reserve for replacement and renewal of fixed assets	20	1,483,691	1,298,691
Cumulative changes in fair values		2,073,967	904,664
Foreign currency translation reserve		18,332	63,887
Total equity		9,141,330	7,710,632
TOTAL LIABILITIES AND EQUITY		11,685,200	9,984,483


Seham Abdul Razzak Razzouqi
Managing Director - Finance, Administration and
International Relations


Nader Hamad Sultan Al-Essa
Deputy Chairman and Chief
Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

Kuwait Petroleum Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 March 2004

	Notes	2004 KD'000	2003 KD'000
REVENUES			
Sales of crude oil, gas, refined products and petrochemicals		9,637,883	8,249,586
Engineering and other operations	21	225,269	177,835
		<u>9,863,152</u>	<u>8,427,421</u>
COST OF REVENUES			
Cost of sales of crude oil, gas, refined products and petrochemicals		(8,909,773)	(7,639,364)
Engineering and other operations		(117,010)	(111,270)
		<u>(9,026,783)</u>	<u>(7,750,634)</u>
GROSS PROFIT		836,369	676,787
General and administration expenses		(181,003)	(185,491)
Provision for inventory and doubtful debts		(16,809)	(39,715)
Depreciation and amortisation		(165,287)	(172,112)
PROFIT FROM OPERATIONS		473,270	279,469
Interest income		11,850	16,278
Investment income	22	223,615	100,809
Share of profit from associates		52,653	34,669
Foreign currency exchange differences		(7,291)	(3,090)
Financing cost recoveries		49,248	49,235
Interest expense		(7,440)	(7,777)
Other income	23	18,865	49,874
Income tax expense		(20,014)	(7,948)
Directors' fees	24	(81)	(59)
PROFIT BEFORE MINORITY INTERESTS	25	794,675	511,460
Minority interests		(1)	(1)
PROFIT FOR THE YEAR		794,674	511,459
Replacement and renewal of fixed assets		(185,000)	-
PROFIT AVAILABLE FOR DISTRIBUTION		609,674	511,459

The attached notes 1 to 32 form part of these consolidated financial statements.

Kuwait Petroleum Corporation and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 March 2004

	<i>Note</i>	2004 KD'000	2003 KD'000
OPERATING ACTIVITIES			
Profit before minority interests		794,675	511,460
Adjustments for:			
Depreciation and amortisation		165,287	172,112
Provision for employees' terminal benefits and pensions		32,981	16,333
Loss on disposal of fixed assets		3,429	703
Share of profit from associates		(52,653)	(34,669)
Interest income		(11,850)	(16,278)
Interest expense		7,440	7,777
Income tax expense		20,014	7,948
Investment income		(223,615)	(100,809)
Operating profit before working capital changes:		735,708	564,577
Increase in trade receivables		(11,185)	(396,537)
Decrease (increase) in inventories		42,255	(151,019)
Decrease (increase) in other receivables and prepayments		65,734	(47,539)
Increase in trade payables		24,655	100,023
(Decrease) increase in other payables, accruals and other credit balances		(49,907)	34,777
Increase in amounts due to Ministry of Energy		168,700	283,329
Cash generated from operations		975,960	387,611
Taxes received		25,378	47,864
Net cash from operating activities		1,001,338	435,475
INVESTING ACTIVITIES			
(Increase) decrease in deposits maturing after 3 months		(50,647)	120,998
Net decrease in securities		275,421	82,285
Net movement in associates		64,873	20,099
Additions to cost in excess of fair value of net identifiable assets acquired		(10,410)	(3,944)
(Increase) decrease in other non-current assets		(23,077)	2,195
Purchase of fixed assets		(644,037)	(554,822)
Proceeds from disposal of fixed assets		23,316	45,534
Interest received		11,850	16,278
Income from securities and dividends received		79,182	100,809
Net cash used in investing activities		(273,529)	(170,568)
FINANCING ACTIVITIES			
Long-term loans, net		138,522	12
Increase in other non-current liabilities		14,423	1,996
Increase in minority interests		17	25
Interest paid		(7,440)	(7,777)
Profit distributed		(460,307)	(478,585)
Net cash used in financing activities		(314,785)	(484,329)
Net impact of foreign currency translation adjustments		(112,079)	127,002
Net increase (decrease) in cash and cash equivalents		300,945	(92,420)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		456,799	549,219
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	757,744	456,799
Short-term deposits maturing after 3 months	3	50,647	-
BANK BALANCES AND CASH AT END OF THE YEAR	3	808,391	456,799

The attached notes 1 to 32 form part of these consolidated financial statements.

Kuwait Petroleum Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2004

	Authorised and paid-up capital KD '000	Statutory reserve KD '000	Capital reserve KD '000	General reserve KD '000	Reserve for replacement and renewal of fixed assets KD '000	Cumulative changes in fair values KD '000	Foreign currency translation reserve KD '000	Profit available for distribution KD '000	Total KD '000
Balance at 31 March 2002	2,500,000	986,093	232,945	1,673,200	1,298,691	1,937,493	(86,979)	-	8,541,443
Profit for the year	-	-	-	-	-	-	-	511,459	511,459
Transfer to statutory reserve	-	51,152	-	-	-	-	-	(51,152)	-
Net movement in cumulative changes in fair values	-	-	-	-	-	(1,032,829)	-	-	(1,032,829)
Net exchange differences	-	-	-	-	-	-	150,866	-	150,866
Profit to be distributed	-	-	-	-	-	-	-	(460,307)	(460,307)
Balance at 31 March 2003	2,500,000	1,037,245	232,945	1,673,200	1,298,691	904,664	63,887	-	7,710,632
Profit for the year	-	-	-	-	-	-	-	794,674	794,674
Replacement and renewal of fixed assets	-	-	-	-	185,000	-	-	(185,000)	-
Transfers to statutory and general reserves	-	60,975	-	60,975	-	-	-	(121,950)	-
Net movement in cumulative changes in fair values	-	-	-	-	-	1,169,303	-	-	1,169,303
Net exchange differences	-	-	-	-	-	-	(45,555)	-	(45,555)
Profit to be distributed	-	-	-	-	-	-	-	(487,724)	(487,724)
Balance at 31 March 2004	2,500,000	1,098,220	232,945	1,734,175	1,483,691	2,073,967	18,332	-	9,141,330

The attached notes 1 to 32 form part of these consolidated financial statements.

Kuwait Petroleum Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2004

1 ORGANISATION AND ACTIVITIES

The consolidated financial statements of Kuwait Petroleum Corporation and subsidiaries (the Group) for the year ended 31 March 2004 were authorised for issue in accordance with a resolution of the directors on 30 June 2004. These financial statements are subject to change upon approval of the Supreme Council of Petroleum. The Corporation is wholly-owned by the Government of the State of Kuwait. The Corporation was established by Law Decree No. 6 of 1980 which came into effect on 27 January 1980. The Group's principal activities include exploration, drilling, production, storage, refining, processing, transportation, distribution and marketing of crude oil, natural gas, chemical, petrochemical and associated products. The marketing of crude oil and petroleum products produced by subsidiaries in the State of Kuwait is undertaken by the Corporation. All of the Group's other activities, including the marketing of crude oil and petroleum products produced by subsidiaries outside the State of Kuwait, are carried out through its subsidiaries and associates. The principal subsidiaries and associates are set out in Note 30. The Group operates principally in the Middle East, Western Europe and the U.S.A.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with Law Decree No. 6 of 1980 and Standards issued or adopted by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

The consolidated financial statements are presented in thousands of Kuwaiti Dinars.

The significant accounting policies adopted are as follows:

Accounting convention

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

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

Accounting periods of group companies

The Group's financial year was from 1 April 2003 to 31 March 2004. The financial year of the Corporation's directly owned subsidiaries is the same as that of the Corporation with the exception of Kuwait Foreign Petroleum Exploration Company K.S.C., Kuwait Gulf Oil Company K.S.C. (Closed) and SFIC Holdings (Cayman), Inc., whose financial periods were from 1 January 2003 to 31 December 2003. Where such subsidiaries do not prepare financial statements drawn up to the same date as that of the Group, adjustments are made for the effects of any significant events or transactions which have occurred in the months following the year end of these subsidiaries.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and its principal subsidiaries. Significant intercompany balances, transactions and profits are eliminated on consolidation.

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

Minority interests principally represent the interest in subsidiaries of KPC Holding (Aruba) E.C. not held by the Corporation.

Cash and cash equivalents

Cash and cash equivalents for the purpose of preparing the consolidated statement of cash flows comprise cash, short-term bank deposits and highly liquid investments with a maturity date not exceeding 3 months from the date of acquisition.

Trade receivables

Trade receivables are stated at original invoice amount less provisions for amounts estimated to be non-collectable. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Inventories

(i) Crude oil and petroleum products

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

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

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

(ii) Other

Spare parts, materials and supplies mainly used in operations are valued at cost, determined principally by the weighted average cost method, less allowance for any obsolete or slow-moving items.

Associates

Investments in associates are accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity accounted amount and the recoverable amount. Associates are enterprises in which the Corporation generally holds 20% to 50% of the voting power and over which it exercises significant influence.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Available for sale securities

After initial recognition at cost, being the fair value of the consideration given including acquisition charges associated with the investment, investments which are classified as "securities" are remeasured at fair value. Unrealised gains and losses on remeasurement to fair value are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of income for the year.

The fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

Cost in excess of fair value of identifiable net assets acquired

On acquisition of a subsidiary or similar long-term investment, any excess of the acquisition cost over the fair value of the net assets acquired, i.e. goodwill, is amortised using the straight-line method, over its estimated useful economic life of periods up to fifteen years. Management considers that this method encompasses the maximum period over which it is appropriate to amortise cost in excess of fair value of the identifiable net assets acquired, having taken into consideration the nature of these assets.

Fixed assets

(i) Oil and gas properties

Oil and gas exploration and producing activities are accounted for using the "successful efforts" method of accounting, whereby costs of geological and geophysical operations, and exploratory drilling costs proven to be non-productive are expensed. Successful exploratory and developmental drilling costs are capitalised and amortised using the unit-of-production method for operations outside the State of Kuwait. Exploration and development drilling costs for operations in the State of Kuwait are capitalised and amortised on a straight-line basis over 10 years.

(ii) Other fixed assets

Other fixed assets are initially recorded at cost. Costs incurred for routine and cyclical maintenance and repairs and renewals are expensed when incurred. The costs of major inspection or overhaul costs are capitalised as a separate inherent component of an asset if they can be reliably estimated, future economic benefits are expected to flow and the Group has already depreciated an amount representing the inherent components that have been replaced or restored by the major inspection or overhaul. Major repairs and renewals of an asset or major components thereof, which improve the standard of performance or which extend the useful life of the asset beyond that originally assessed at the time of acquisition, are capitalised and depreciated over the useful life of the asset.

Depreciation

Depreciation is provided on a straight-line basis on other fixed assets, other than freehold land and assets under construction. The rates of depreciation are based upon the following estimated useful lives:

• Tankage, pipelines and jetties	5 - 25 years
• Plant and machinery	3 - 33 years
• Oil and gas tankers	7 - 10 years
• Camps, buildings and facilities	4 - 40 years
• Vehicles, transportation equipment and other assets	3 - 20 years
• Construction and general equipment	5 years
• Well drilling and seismic surveys	10 years

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment and uncollectibility of assets

The carrying amounts of the Group's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in income whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of the Group's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rates inherent in the asset. Assets with a short duration are not discounted. The recoverable amount of marketable securities is their quoted market price. The recoverable amount of other assets is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in the statement of income.

Trade payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Revenue recognition

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

Interest is recognised on the accrual basis.

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

Leases

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

Foreign currencies

In the accounts of individual Group companies, transactions denominated in foreign currencies are recorded in local reporting currencies at the exchange rates ruling at the date of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated into local reporting currencies at the year-end spot exchange rates. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction, is included as an exchange gain or loss in the statement of income of the relevant company. Non-monetary assets and liabilities denominated in foreign currency are translated using the exchange rates that existed when the values were determined.

For the purposes of preparation of the Group's consolidated financial statements, the results of individual Group companies are translated into Kuwaiti Dinars at the average rates of exchange prevailing during the year, and their balance sheets at the year-end spot exchange rates. Exchange differences arising are accumulated as a separate component of equity (foreign currency translation reserve) until the disposal of the subsidiary or associate.

Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets and liabilities of the foreign entity and are translated at the year end spot exchange rates.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial instruments include bank balances and cash, trade receivables, securities, trade payables and certain other assets and liabilities. Off-balance sheet financial instruments include forward foreign exchange purchase contracts which are entered into in order to fix the exchange rate at which purchases will be settled and are disclosed at contracted rates, and other derivative products. Derivative products are financial contracts between two parties where payment is dependent upon movements in price in one or more underlying financial instruments, reference rates or index.

Fair values of on-balance sheet financial instruments are based on quoted prices for marketable instruments, or estimated fair values, calculated using methods such as net present values of future cash flows. Fair values of off-balance sheet financial instruments are based on the unrealised gain or loss from marking to market the derivatives using prevailing market rates or internal pricing models.

Trade and settlement date accounting

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

Taxes on income

Certain of the Corporation's subsidiaries are subject to taxes on income in various foreign countries of operation. Provision is made for current income taxes in the subsidiaries' financial statements based on the tax laws and the rates of the countries in which operations were conducted during the year. Provision for deferred income taxes reflects the net tax effects of timing differences between the carrying amounts of assets and liabilities used for financial and income tax reporting purposes, which are expected to reverse in the foreseeable future.

Derivatives

Derivative products principally include forward foreign exchange contracts, futures, options and swaps.

Derivatives are stated at fair value. The fair value of a derivative is equivalent of the unrealised gain or loss from marking to market using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other receivables and derivatives with negative market values (unrealised losses) are included in other payables in the balance sheet. The resultant gains and losses from derivatives held for trading purpose are included in the statement of income.

The Group also enters into sales and purchase contracts as part of its international operations. Where these contracts qualify as a derivative or include an embedded derivative as defined by IAS39, they are stated at fair value. Fair value is assessed by applying prevailing market prices directly to the contract or embedded derivative, where possible, or by identifying separate financial instruments which have the same terms and are readily traded in the relevant markets.

Provisions

Provisions are recognised when an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation, are both probable and able to be reliably measured.

Kuwait Petroleum Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2004

3 BANK BALANCES AND CASH

	2004 KD'000	2003 KD'000
Cash and current accounts at banks	38,556	39,154
Short-term bank deposits and highly liquid investments maturing within 3 months	719,188	417,645
Cash and cash equivalents	757,744	456,799
Short-term bank deposits maturing after 3 months	50,647	-
	<u>808,391</u>	<u>456,799</u>

Short-term bank deposits are mainly denominated in Kuwaiti Dinars, Euros and US Dollars. These deposits carry annual interest rates between 0.5% to 2.75% (2003: 1.25% to 3%) and mature within six months from the balance sheet date. These balances are placed with high credit quality financial institutions.

Bank balances and cash also include:

US \$ 10.4 million and £ 1.4 million (KD 3.8 million) recovered from former employees against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities (2003: US \$ 10.3 million and £1.3 million – KD 3.7 million). These amounts, which include accumulated interest, can only be utilised in accordance with the outcome of the litigation (refer note 30).

US \$ 66.0 million, £6.1 million, EUR 1.6 million and CHF 4.0 million (KD 24.3 million) recovered from a former employee against whom the subsidiary company has initiated legal proceedings for financial irregularities [2003: US \$ 65.3 million, £5.2 million, EUR 1.6 million and CHF 2.0 million (KD 23 million)].

The total corresponding amount of KD 28.1 million (2003: KD 26.7 million) is reported as other credit balances (Note 12).

4 TRADE RECEIVABLES

The Corporation and one of its major subsidiaries, comprising 79% (2003: 68%) of the consolidated total trade receivables, deal mainly with major state owned and international oil companies. Another major subsidiary operating mainly in Europe and accounting for approximately 20% (2003: 18%) of the consolidated total trade receivables deals with a large number of corporate customers in that region. The Group's 12 largest customers account for 50% of outstanding trade receivables at 31 March 2004 (2003: 41%).

Trade receivables are denominated predominantly in US Dollars and Kuwaiti dinars.

Trade receivables include KD 119 million (31 March 2003: KD 271 million), which represents the short-term portion of amounts due from Ministry of Energy (Note 10).

Kuwait Petroleum Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2004

5 INVENTORIES

	2004 KD'000	2003 KD'000
Crude oil	101,140	167,725
Liquefied petroleum gas	691	4,863
Refined petroleum products	354,625	331,600
Finished petrochemical products	5,286	1,973
Spare parts, materials and supplies	191,292	189,128
	<u>653,034</u>	<u>695,289</u>

6 OTHER RECEIVABLES AND PREPAYMENTS

	2004 KD'000	2003 KD'000
Marine sub-charter and other receivables	69,721	113,645
Insurance, local tax and other claims	33,728	61,209
Prepaid expenses	38,229	17,555
Receivable from exchange and concession partners	29,132	27,213
Advances to contractors	24,404	22,685
Refundable deposits	18,649	15,327
Employee receivables	1,357	1,546
Other	206,990	59,295
	<u>422,210</u>	<u>318,475</u>

Included within insurance, local tax and other claims is an amount of KD 22.4 million (2003: KD 40.5 million) relating to insurance compensation as a result of a major fire on 31 January 2002, which severely damaged facilities at one of the Group's subsidiaries, Kuwait Oil Company K.S.C.

7 TAXES RECEIVABLE

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

8 SECURITIES

	2004 KD'000	2003 KD'000
Managed portfolios	2,052,124	2,144,620
Other	2,471,490	1,509,595
	<u>4,523,614</u>	<u>3,654,215</u>

Kuwait Petroleum Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2004

8 SECURITIES (Continued)

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

9 COST IN EXCESS OF FAIR VALUE OF IDENTIFIABLE NET ASSETS ACQUIRED

	2004 KD'000	2003 KD'000
Net book value at beginning of the year	63,524	56,287
Additions during the year, net	10,209	3,944
Amortisation charged during the year	(9,426)	(8,312)
Currency translation effects	6,406	11,605
Net book value at end of the year	<u>70,713</u>	<u>63,524</u>

The amortisation charged during the year is included in the consolidated statement of income under depreciation and amortisation.

10 OTHER NON-CURRENT ASSETS

	2004 KD'000	2003 KD'000
Long term portion of trade receivables	542,980	428,740
Deferred expenses	21,499	12,959
Deferred tax asset	4,653	4,881
Intangible assets	33,972	14,218
Other	14,030	11,549
	<u>617,134</u>	<u>472,347</u>

Included in trade receivables and non-current trade receivables are KD 119 million (2003: KD 271 million) and KD 543 million (2003: KD 429 million) respectively due from the Ministry of Energy which do not carry any interest or fixed or determinable repayment dates.

Approximately KD 13.7 million (2003: KD 8.1 million) of deferred expenses represents catalysts used in the refining process which are amortised on a straight line basis over their estimated useful lives.

Kuwait Petroleum Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2004

11 FIXED ASSETS

	Oil and gas properties KD'000	Tankage, pipelines and jeties KD'000	Plant and machinery KD'000	Oil and gas tankers KD'000	Camps, buildings and facilities KD'000	Vehicles, transportation equipment and other assets KD'000	Construction and general equipment KD'000	Well drilling and seismic surveys KD'000	Assets under construction KD'000	Total KD'000
Balance at 1 April 2003, net of accumulated depreciation	223,912	346,337	715,621	114,144	306,859	14,705	2,731	278,741	731,242	2,734,292
Additions	40,388	49,934	31,324	9,018	34,083	13,696	8,169	113,266	344,159	644,037
Disposals	(13,464)	-	(6,879)	(1,213)	(3,578)	(328)	(66)	(27)	(1,190)	(26,745)
Transfers	-	7,847	106,929	1,630	13,528	1,840	2,970	6,567	(141,311)	-
Currency translation effects	2,340	4,361	25,383	-	19,984	843	193	-	7,014	60,118
Depreciation for the year	(22,957)	(41,706)	(115,471)	(25,723)	(26,528)	(4,741)	(1,471)	(54,747)	-	(293,344)
At 31 March 2004	230,219	366,773	756,907	97,856	344,348	26,015	12,526	343,800	939,914	3,118,358
Fixed assets										
At cost	398,707	1,306,396	2,504,450	401,701	724,810	112,780	31,288	958,793	939,914	7,378,839
Accumulated depreciation	(168,488)	(939,623)	(1,747,543)	(303,845)	(380,462)	(86,765)	(18,762)	(614,993)	-	(4,260,481)
Net carrying amount at 31 March 2004	230,219	366,773	756,907	97,856	344,348	26,015	12,526	343,800	939,914	3,118,358

The depreciation charged in the consolidated statement of income is reduced by KD 129.7 million (2003: KD 105.6 million) being the amount charged to the Ministry of Energy in respect of the operations of local wholly owned subsidiaries, Kuwait Oil Company K.S.C. and Kuwait Gulf Oil Company K.S.C.

Kuwait Petroleum Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2004

12 OTHER CREDIT BALANCES

Other credit balances represent KD 28.1 million (2003: KD 26.7 million) relating to funds recovered from former employees against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities, together with accumulated interest (refer to Note 30). KD 3.8 million (2003: KD 3.7 million) of this balance can only be utilised in accordance with the outcome of the litigation.

13 OTHER PAYABLES AND ACCRUALS

	<i>2004</i> <i>KD'000</i>	<i>2003</i> <i>KD'000</i>
Short-term bank loans	90,247	181,346
Provision for annual leave and accrued compensation	29,611	28,607
Payable to contractors	106,989	105,184
Accruals	28,770	34,299
Sundry payables	75,035	44,411
Payable to exchange partners	17,642	1,093
Marine sub-charter and other marine payables	15,281	20,797
Insurance claim	1,437	562
	<u>365,012</u>	<u>416,299</u>

Short-term bank loans are unsecured, are denominated in Euros, or in the currency of the country in which the borrowing occurs, and bear interest at prevailing market rates.

14 AMOUNTS DUE TO MINISTRY OF ENERGY

Amounts due to the Ministry of Energy represent the net amounts payable for purchases of crude oil and natural gas and for certain activities performed by the Corporation and its subsidiaries on behalf of the Ministry of Energy. These activities primarily relate to the exploration for and production of crude oil and natural gas in the State of Kuwait and the local marketing (within the State of Kuwait) of refined products and liquefied petroleum gas. The costs of the wholly owned subsidiaries, Kuwait Oil Company K.S.C. and Kuwait Gulf Oil Company K.S.C., are charged to this account.

15 PROFIT TO BE DISTRIBUTED

	<i>2004</i> <i>KD'000</i>	<i>2003</i> <i>KD'000</i>
Balance at beginning of the year	460,307	478,585
Profit distributed during the year	(460,307)	(478,585)
Profit to be distributed	<u>487,724</u>	<u>460,307</u>
Balance at end of the year	<u>487,724</u>	<u>460,307</u>

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

Kuwait Petroleum Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2004

16 NON-CURRENT LIABILITIES

	2004 KD'000	2003 KD'000
Employees' terminal benefits and pensions	179,351	146,370
Long-term loans	138,944	422
Deferred income taxes	25,799	20,094
Provisions	20,975	10,960
Other	29,777	31,074
	<u>394,846</u>	<u>208,920</u>

The long-term loans represent loans to KPC Holdings (Aruba) A.E.C. and Kuwait Gulf Oil Company K.S.C. KPC Holdings (Aruba) A.E.C. long-term loans are denominated in Euros and bear various interest rates, however the majority of the loan balance bears interest at a rate of either EURIBOR plus 0.75% or EURIBOR plus 0.4%. Certain of the loan balances include covenants relating to the financial position of a subsidiary of KPC Holdings (Aruba) A.E.C. The long-term loan to Kuwait Gulf Oil Company K.S.C. represents a draw down under a facility amounting to US \$ 750 million provided to fund capital expenditures of Al Khafji Joint Operations during the years 2003 to 2007 and is repayable in five equal annual instalments starting from 16 December 2005 to 16 December 2009. This loan carries interest at 6 month LIBOR minus 0.25%.

Provisions represent present obligations of one of the Corporation's subsidiaries in Europe relating mainly to environmental provisions and business restructuring in respect of the relocation of certain group management and head office functions from London to Kuwait, together with restructuring of operations in the United Kingdom, Belgium and Denmark.

17 STATUTORY RESERVE

As required by Article 12 of Law Decree No. 6 of 1980, 10% of profit is transferred to the statutory reserve. Such transfers will be discontinued when the reserve equals half the authorised and paid-up capital.

18 CAPITAL RESERVE

The capital reserve mainly represents the difference between the Corporation's cost of acquisition of its original subsidiaries, which were transferred by the Government of the State of Kuwait, and their net asset values at 31 December 1979.

19 GENERAL RESERVE

In accordance with Article 12 of Law Decree No. 6 of 1980, 10% of profit is transferred to the general reserve, which is subject to approval of the Supreme Council of Petroleum.

20 RESERVE FOR REPLACEMENT AND RENEWAL OF FIXED ASSETS

Article 10 of Law Decree No. 6 of 1980 states that the Corporation may provide part from its profits to meet the costs of replacement and renewal of the Corporation's and its subsidiaries' fixed assets, after approval of the Supreme Council for Petroleum. The reserve is based on the difference between depreciation, calculated on the historical cost of the fixed assets of the Corporation and its Kuwaiti subsidiaries, and depreciation calculated on the replacement cost of assets using their insured (generally replacement) values. The Board of Directors of the Corporation has proposed to transfer KD 185 million to the reserve as of 31 March 2004 (2003: Nil), which is subject to approval of the Supreme Council of Petroleum.

Kuwait Petroleum Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2004

21 REVENUES FROM ENGINEERING AND OTHER OPERATIONS

	2004 KD'000	2003 KD'000
Engineering and construction	3,954	3,774
Marine operations	9,292	14,691
Merchandise and other services	212,023	159,370
	<u>225,269</u>	<u>177,835</u>

22 INVESTMENT INCOME

Included in investment income is KD 145 million (2003: Nil) relating to realised gains on sale of other marketable securities.

23 OTHER INCOME

	2004 KD'000	2003 KD'000
Loss on disposal of fixed assets	(3,429)	(703)
Sundry income	13,136	24,397
UN compensation claim	9,158	26,180
	<u>18,865</u>	<u>49,874</u>

24 DIRECTORS' FEES

The directors' fees are subject to approval of the Supreme Council for Petroleum.

25 PROFIT BEFORE MINORITY INTERESTS

The profit before minority interests is stated after charging:

	2004 KD'000	2003 KD'000
Staff costs	<u>453,089</u>	<u>401,871</u>

At 31 March 2004 the Group had 20,536 employees (2003: 20,370 employees).

26 UN COMPENSATION CLAIM

In respect of losses suffered as a result of the Iraqi invasion and occupation of Kuwait in 1990, the Governing Council of the United Nations Claims Commission has approved an amount of US \$ 18,864,058 thousand to the Group and the Government of the State of Kuwait for payment as and when funds become available. During the year, a further amount of KD 20,750 thousand (2003: KD 26,180 thousand) was received in part settlement. Of this amount, KD 9,158 thousand (2003: KD 26,180 thousand) is in respect of amounts due to the Group (Note 23).

27 FAIR VALUES AND FINANCIAL INSTRUMENTS

In the normal course of business, the Group uses primary financial instruments such as cash and deposits, securities, short-term borrowings, receivables and payables. One of the subsidiaries in the Group uses derivative financial instruments for managing risks arising from changes in crude oil and petroleum product prices, exchange rates and interest rates. The subsidiary does not use derivatives for speculative purposes.

The carrying amounts of financial instruments approximate their fair values due to the short-term maturities and the nature of such instruments.

Non-current trade receivables totalling KD 543 million (2003: KD 429 million) are due from the Ministry of Energy (Note 10). Since this balance does not carry a fixed or determinable date of future payment, it is not possible to estimate with sufficient reliability its fair value. However, since the balance does not carry interest, fair value is below carrying value.

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

	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>USD '000</i>	<i>USD '000</i>	<i>KD '000</i>	<i>KD '000</i>
Foreign exchange contracts	618,818	656,346	182,610	197,051

The majority of the balances at 31 March 2004 relating to forward exchange contracts were in Euros and US dollars, with minimal amounts in Danish Krona, Pounds Sterling, Thai Baht and Swedish Kroner.

28 RISK MANAGEMENT

Information on the financial risks of the Group's financial instruments is set out below:

Interest rate risk

The Group is exposed to interest rate risk on its interest bearing assets (being mainly bank deposits and bonds). The Group manages the interest rate risk by placing its deposits on a short-term basis with banks.

Credit risk

The Group is exposed to credit risk in respect of losses that would have to be recognised if counterparties fail to perform as contracted. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Credit risk with respect to trade receivables is limited due to the Group dealing mainly with state owned and major international oil companies, the use of letter of credit arrangements and the active monitoring of outstanding receivables.

The Group controls credit risk in relation to its securities and bank balances by rigorous screening and credit assessment of all proposed dealing counterparties and placing limits on the total financial exposure with each institution.

28 RISK MANAGEMENT (continued)***Liquidity risk***

The Group has limited its liquidity risk by maintaining its managed portfolios of securities in quoted marketable bonds and equities. The Group's terms of sales are governed by contracts with customers but generally require payment within 30 days of the date of sale. Amounts due to the Ministry of Energy are normally settled within 30 days of the date of purchase.

Currency risk

The Group does not generally use derivative forward foreign exchange contracts to hedge against foreign exchange currency risk, except for one of its overseas subsidiaries. The overseas subsidiary continuously seeks to identify and measure all risks arising from movements in foreign exchange rates. Such risks are routinely hedged using a variety of methods, including derivatives such as forward currency contracts and options.

Other than securities and loans, which are denominated in foreign currencies, mainly Euros, the Group is not exposed to significant currency risk.

As the Kuwaiti Dinar movements approximate that of the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates, equity prices and oil prices. The Group sets limits on the value of risk that may be accepted and the market risk of equities is monitored on a weekly basis by a Board management committee.

The Group considers that volatility in oil prices is a regular part of its business. To cover exceptional circumstances, one of the Group's subsidiaries has a hydrocarbon risk management policy under which it may make use of derivative instruments to hedge oil price related risks.

29 EXPENDITURE COMMITMENTS**a) Operating lease commitments**

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

	2004	2003
	KD'000	KD'000
Future minimum lease payments:		
Within 1 year	21,430	14,172
Between 1 and 5 years	52,787	26,556
After 5 years	43,429	15,412
	<u>117,646</u>	<u>56,140</u>
Aggregate operating lease expenditure contracted for at the balance sheet date	<u>117,646</u>	<u>56,140</u>

b) Capital expenditure commitments

Estimated capital expenditure contracted for by the Group at the balance sheet date but not provided for amounted to KD 549 million (2003: KD 498 million).

30 CONTINGENCIES

Contingent liabilities

Pursuant to the acquisition by a subsidiary of an interest in a joint venture in Australia, encompassing production from the Harriet field and various exploration permits, the subsidiary has entered into three deeds of cross charges in favour of each of the other participants for the purpose of securing the subsidiary's obligations under the joint venture agreement. The cross charges comprise a prior ranking charge over the subsidiary's interest in the joint venture to a limit of Australian \$ 250 million (KD 56 million).

Contingent assets

- (a) On 2 August 1990, Iraq invaded the State of Kuwait and disrupted the Corporation's Kuwait operations including those of its subsidiaries and affiliates. Wells, facilities and equipment were damaged or destroyed and inventories and other assets were stolen. The related carrying amounts of assets damaged or stolen and other expenses related to the invasion have been reflected as extraordinary items in the consolidated statement of income of prior years.

Under the terms of the Amiri decree issued on 17 January 1981, costs relating to crude oil production are to be recovered from the amounts due to the Government through the Ministry of Energy. Accordingly, all losses incurred by Kuwait Oil Company K.S.C. relating to wells, facilities and equipment damaged or destroyed and parts, supplies and other assets stolen during the Iraqi invasion normally utilised in crude oil production are borne by the Ministry of Energy.

The Corporation and certain of its local subsidiaries are pursuing claims against Iraq for the recovery of losses suffered during the Iraqi invasion. Amounts received during the year have been disclosed in other income (Note 23).

- (b) In 1992-93 one of the subsidiary companies discovered various financial irregularities and subsequently initiated legal proceedings against certain former senior employees of the company to seek to recover these losses. On 25 June 1996 the First Instance Court, Criminal Department decreed in favour of that subsidiary and ordered the defendants to pay that subsidiary approximately US \$ 64 million (KD 19.1 million). On appeal by one of the defendants to the Appellate Court, this order was cancelled. A case has also been filed by that subsidiary company with the Committee for Investigation of Ministers. As the matter continues to be under judicial review, it is not possible to ascertain the amount of losses that may be finally recovered. Two of the defendants have refunded US \$ 6.2 million and £1.3 million (KD 2.5 million) respectively to that subsidiary company. These amounts, together with interest earned amounting to KD 3.8 million, have been classified under other credit balances (Note 12) for the reasons stated above.

Civil proceedings were brought in London in 1994 against certain former officers and employees of that subsidiary in connection with certain other financial irregularities and a court decision awarded US \$ 136.7 million (approximately KD 41.0 million) and £319 thousand (approximately KD 151 thousand) in favour of that subsidiary. Interest is running on these sums from the date of judgment (15 December 1998) and is approximately US \$1 million (KD 300 thousand) per month. The defendants were unsuccessful in their appeal to the Court of Appeal and have also lost their application to appeal to the House of Lords. Enforcement of the English award is in progress. To date, and as a result of another action in a Swiss court, US \$ 66.0 million, £6.1 million, EUR 1.6 million and CHF 4.0 million (approximately KD 24.3 million) of funds belonging to one of the defendants have been recovered by the subsidiary company and are available for distribution to the subsidiary company and the other concerned parties (note 3). The subsidiary company's lawyers have advised that a considered decision would have to be taken, after study, on how these funds are to be allocated between the concerned parties and, until there is such an allocation, no distribution of funds nor recognition of income should be made. These amounts, together with interest earned, have been classified as other credit balances (Note 12).

Kuwait Petroleum Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2004

30 CONTINGENCIES (continued)

Subsequent to the year end, the subsidiary company has also recovered a property in London, UK from one of the defendants with an approximate market value of £1.5 million (KD 0.8 million).

Other local civil legal cases have also been raised and are in progress in Kuwait to recover funds from other parties relating to the above financial irregularities.

The High Court of Justice, Queen's Bench Division Commercial Court in the UK has awarded the Corporation legal costs of £1.4 million (KD 0.7 million). This relates to the successful defense of a third party action raised by two of the defendants. The parent company is presently seeking to recover these costs from the defendants, and has therefore joined the subsidiary company in its claim before the Kuwaiti Courts for enforcement of the UK judgment. The case is still pending before the Kuwaiti Courts.

31 SUBSIDIARIES AND ASSOCIATES

a) Principal directly and wholly-owned subsidiaries incorporated in the State of Kuwait:

<i>Name of company</i>	<i>Principal activities</i>
• Kuwait Oil Company K.S.C.	Exploration for and production of crude oil and natural gas in the State of Kuwait
• Kuwait National Petroleum Company K.S.C.	Refining, LPG manufacturing, and local marketing of refined products
• Kuwait Oil Tanker Company S.A.K.	Operation of a fleet of crude oil tankers and liquefied petroleum gas and oil product carriers
• Petrochemical Industries Company K.S.C.	Production of petrochemical products and their distribution and marketing
• Kuwait Foreign Petroleum Exploration Company K.S.C.	Exploration for and development of oil and gas outside the State of Kuwait
• Kuwait Santa Fe for Engineering and Petroleum Projects Company K.S.C.	Provision of design, engineering and related services to the petroleum industry
• Kuwait Aviation Fuelling Company K.S.C.	Supply of aviation fuel
• Kuwait Gulf Oil Company K.S.C.	Exploration for and production of crude oil and natural gas within the Neutral Zone concession.

Kuwait Petroleum Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2004

31 SUBSIDIARIES AND ASSOCIATES (continued)

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

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Principal activities</i>
• SFIC Holdings (Cayman), Inc.	Cayman Islands	International contract drilling
• KPC Holdings (Aruba) AEC	Aruba	Refining, and marketing of refined products
• Petrochemical Industries Holding N.V.	Luxembourg	Investment in other companies and financing activities (liquidated on 25 July 2003)
• Petrochemical Resources Holding B.V	Netherlands	Investment in other companies and financing activities.

c) Principal associates

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Proportion held</i>	<i>Principal activities</i>
• Kuwait Drilling Company K.S.C.	Kuwait	49%	Contract drilling
• Equate Petrochemical Company K.S.C.	Kuwait	45%	Petrochemicals
• Gulf Petrochemical Industries Company B.S.C.	Bahrain	33%	Petrochemicals
• Global Santa Fe Corporation	United States	19%	Contract drilling and related services

32 COMPARATIVE AMOUNTS

Certain comparative amounts for 2003 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect the previously reported profit or equity.