Kuwait Petroleum Corporation And Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2005

TUESDAY

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A13 13/11/2018 #196
COMPANIES HOUSE

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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 2005, 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 2005, 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 2005 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

3 July 2005
Kuwait

Kuwait Petroleum Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEET

At 31 March 2005

ASSETS	Notes	2005 KD'000	2004 KD'000
CURRENT ASSETS			
Bank balances and cash	3	**1,453,412**	808,391
Trade receivables	4	**1,561,969**	1,105,410
Inventories	5	**938,046**	653,034
Other receivables and prepayments	6	**349,234**	422,210
Taxes receivable	7	**9,060**	8,213
Amount due from Ministry of Finance	8	**32,284**	-
Total current assets		**4,344,005**	2,997,258
INVESTMENTS			
Securities	9	**4,435,133**	4,523,614
Unconsolidated subsidiary, associates and joint ventures		**646,350**	358,123
Total investments		**5,081,483**	4,881,737
Cost in excess of fair value of identifiable net assets acquired	10	**68,740**	70,713
Other non-current assets	11	**743,969**	617,134
Fixed assets	12	**3,375,512**	3,118,358
TOTAL ASSETS		**13,613,709**	11,685,200
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade payables		**368,227**	369,419
Other credit balances	13	**29,501**	28,146
Other payables and accruals	14	**468,662**	365,012
Taxes payable	7	**198,325**	172,705
Amounts due to Ministry of Energy	15	**1,172,014**	725,792
Profit to be distributed	16	**1,423,599**	487,724
Total current liabilities		**3,660,328**	2,148,798
NON-CURRENT LIABILITIES	17	**471,223**	394,846
MINORITY INTERESTS		**220**	226
EQUITY			
Authorised and paid-up capital		**2,500,000**	2,500,000
Statutory reserve	18	**1,250,000**	1,098,220
Capital reserve	19	**232,945**	232,945
General reserve	20	**3,934,175**	1,734,175
Reserve for replacement and renewal of fixed assets	21	**1,483,691**	1,483,691
Cumulative changes in fair values		**9,805**	2,073,967
Foreign currency translation reserve		**71,322**	18,332
Total equity		**9,481,938**	9,141,330
TOTAL LIABILITIES AND EQUITY		**13,613,709**	11,685,200

Suhail Bograis
Managing Director – Planning and Finance

Hani Abdulaziz Hussain
Deputy Chairman and Chief Executive Officer

The attached notes 1 to 33 form part of these consolidated financial statements.

Kuwait Petroleum Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 March 2005

	Notes	2005 KD'000	2004 KD'000
REVENUES			
Sales of crude oil, gas, refined products and petrochemicals		**13,439,327**	9,637,883
Engineering and other operations	22	**264,242**	225,269
		13,703,569	9,863,152
COST OF REVENUES			
Cost of sales of crude oil, gas, refined products and petrochemicals		**(12,060,111)**	(8,909,773)
Engineering and other operations		**(151,096)**	(117,010)
		(12,211,207)	(9,026,783)
GROSS PROFIT		**1,492,362**	836,369
General and administration expenses		**(202,455)**	(181,003)
Provision for inventory and doubtful debts		**(377)**	(16,809)
Depreciation and amortisation		**(169,387)**	(165,287)
Impairment losses of cost in excess of fair value of identifiable net assets acquired	10	**(6,454)**	-
PROFIT FROM OPERATIONS		**1,113,689**	473,270
Interest income		**20,812**	11,850
Investment income	23	**2,337,826**	223,615
Share of profit from associates and joint ventures		**123,865**	52,653
Interest expense		**(7,339)**	(7,440)
Other income	24	**238,309**	60,822
Income tax expense		**(51,685)**	(20,014)
Directors' fees	25	**(92)**	(81)
PROFIT BEFORE MINORITY INTERESTS	26	**3,775,385**	794,675
Minority interests		**(6)**	(1)
PROFIT FOR THE YEAR		**3,775,379**	794,674
Replacement and renewal of fixed assets		**-**	(185,000)
PROFIT AVAILABLE FOR DISTRIBUTION		**3,775,379**	609,674

The attached notes 1 to 33 form part of these consolidated financial statements.

Kuwait Petroleum Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2005

	Note	2005 KD'000	2004 KD'000
OPERATING ACTIVITIES			
Profit before minority interests		3,775,385	794,675
Adjustments for:			
Depreciation and amortisation		169,387	165,287
Impairment loss		6,454	-
Provision for employees' terminal benefits and pensions		21,548	32,981
(Gain) loss on disposal of fixed assets		(1,493)	3,429
Share of profit from unconsolidated subsidiaries, associates and joint ventures		(123,865)	(52,653)
Interest income		(20,812)	(11,850)
Interest expense		7,339	7,440
Income tax expense		51,685	20,014
Investment income		(2,337,826)	(223,615)
Operating profit before changes in operating assets and liabilities:		1,547,802	735,708
Increase in trade receivables		(536,955)	(11,185)
(Increase) decrease in inventories		(285,012)	42,255
Decrease in other receivables and prepayments		74,273	65,734
(Decrease) increase in trade payables		(1,192)	24,655
Increase (decrease) in other payables, accruals and other credit balances		141,103	(49,907)
Increase in amounts due to Ministry of Energy		589,184	168,700
Cash generated from operations		1,529,203	975,960
Taxes received		6,742	25,378
Net cash from operating activities		1,535,945	1,001,338
INVESTING ACTIVITIES			
Increase in deposits maturing after 3 months		(12,477)	(50,647)
Net (increase) decrease in securities		(2,452,150)	275,421
Net movement in subsidiaries, associates and joint ventures		(133,467)	64,873
Additions to cost in excess of fair value of net identifiable assets acquired		(1,690)	(10,410)
Increase in other non-current assets		(40,044)	(23,077)
Purchase of fixed assets		(628,133)	(644,037)
Proceeds from disposal of fixed assets		83,252	23,316
Interest received		20,078	11,850
Amounts due from Ministry of Finance		(32,284)	-
Proceeds from sale of securities and dividends received		2,789,407	79,182
Net cash used in investing activities		(407,508)	(273,529)
FINANCING ACTIVITIES			
Long-term loans, net		(33,557)	138,522
Increase in non-current liabilities		18,634	14,423
(Decrease) increase in minority interests		(12)	17
Interest paid		(7,339)	(7,440)
Profit distributed		(487,724)	(460,307)
Net cash used in financing activities		(509,998)	(314,785)
Net effect of foreign currency translation adjustments		14,105	(112,079)
Net increase in cash and cash equivalents		632,544	300,945
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		757,744	456,799
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	1,390,288	757,744
Short-term deposits maturing after 3 months	3	63,124	50,647
BANK BALANCES AND CASH AT END OF THE YEAR	3	1,453,412	808,391

The attached notes 1 to 33 form part of these consolidated financial statements.

Kuwait Petroleum Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2005

	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 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)	-
	2,500,000	1,037,245	232,945	1,673,200	1,483,691	904,664	63,887	609,674	8,505,306
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
Profit for the year	-	-	-	-	-	-	-	3,775,379	3,775,379
Transfers to statutory and general reserves	-	151,780	-	2,200,000	-	-	-	(2,351,780)	-
Net movement in cumulative changes in fair values	-	-	-	-	-	(2,064,162)	-	-	(2,064,162)
Net exchange differences	-	-	-	-	-	-	52,990	-	52,990
Profit to be distributed	-	-	-	-	-	-	-	(1,423,599)	(1,423,599)
Balance at 31 March 2005	**2,500,000**	**1,250,000**	**232,945**	**3,934,175**	**1,483,691**	**9,805**	**71,322**	**-**	**9,481,938**

The attached notes 1 to 33 form part of these consolidated financial statements.

1 ORGANISATION AND ACTIVITIES

The consolidated financial statements of Kuwait Petroleum Corporation and subsidiaries (the Group) for the year ended 31 March 2005 were authorised for issue in accordance with a resolution of the directors on 3 July 2005. 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, associates and joint ventures. The principal subsidiaries, associates and joint ventures are set out in Note 32. 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, except for the implementation of IFRS 3 "Business Combinations" and the early adoption of the revised version of IAS 2 "Inventories", as indicated in notes 10 and 24 respectively.

Accounting periods of group companies
The Group's financial year was from 1 April 2004 to 31 March 2005. 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 2004 to 31 December 2004. 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.

Unconsolidated subsidiaries and associates
Investments in subsidiaries which are not consolidated and 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. Subsidiaries are enterprises in which the Corporation generally holds greater than 50% of the voting power and over which it exercises controls. 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 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
Cost in excess of fair value of identifiable net assets acquired is measured initially at cost.

Cost in excess of fair value of identifiable net assets acquired is capitalised and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not reversed.

Cost in excess of fair value of identifiable net assets acquired arising on acquisition before the implementation of IFRS 3 has been retained at the previous carrying values subject to being tested for impairment at that date.

At least annually, and where there is an indication that cost in excess of fair value of identifiable net assets acquired may be impaired, the recoverable amount is determined for the cash-generating unit to which the cost belongs. If the carrying amount is greater than the recoverable amount, an impairment loss is recognised.

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. Impairment losses of cost in excess of fair value of identifiable net assets acquired are not realisable.

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.

3 BANK BALANCES AND CASH

	2005 KD'000	*2004 KD'000*
Cash and current accounts at banks	**98,605**	38,556
Short-term bank deposits and highly liquid investments maturing within 3 months	**1,291,683**	719,188
Cash and cash equivalents	**1,390,288**	757,744
Short-term bank deposits maturing after 3 months	**63,124**	50,647
	1,453,412	808,391

Short-term bank deposits are mainly denominated in Kuwaiti Dinars, Euros and US Dollars. These deposits carry annual interest rates between 0.25% to 4.75% (2004: 0.5% to 2.75%) 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 $ 10.6 million and £ 1.4 million (KD 3.9 million) recovered from former employees against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities [(2004: US $ 10.4 million and £ 1.4 million (KD 3.8 million)]. These amounts, which include accumulated interest, can only be utilised in accordance with the outcome of the litigation (refer note 31).

US $ 67 million, £ 7.8 million, EUR 1.7 million and CHF 4.1 million (KD 25.6 million) recovered from former employees against whom the subsidiary company has initiated legal proceedings for financial irregularities [2004: US $ 66 million, £6.1 million, EUR 1.6 million and CHF 4.1 million (KD 24.3 million)].

The total corresponding amount of KD 29.5 million (2004: KD 28.1 million) is reported as other credit balances (Note 13).

4 TRADE RECEIVABLES

The Corporation and one of its major subsidiaries, comprising 75% (2004: 79%) 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 24% (2004: 20%) 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 43% of outstanding trade receivables at 31 March 2005 (2004: 50%).

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

Trade receivables include KD 128 million (31 March 2004: KD 119 million), which represents the short-term portion of amounts due from Ministry of Energy (Note 11).

The above balances are stated net of a provision of KD 95 million (2004: KD 95 million). A significant portion of these receivables has been outstanding for a number of years, as payment of these balances is subject to formalities, including the approval of the Ministry of Energy expenditure budget. It has been resolved that the Ministry of Finance and Ministry of Energy will undertake to settle the amounts due upon the completion of these formalities.

5 INVENTORIES

	2005 KD'000	2004 KD'000
Crude oil	234,952	101,140
Liquefied petroleum gas	823	691
Refined petroleum products	506,487	354,625
Finished petrochemical products	3,507	5,286
Spare parts, materials and supplies	192,277	191,292
	938,046	653,034

6 OTHER RECEIVABLES AND PREPAYMENTS

	2005 KD'000	2004 KD'000
Marine sub-charter and other receivables	78,186	69,721
Insurance, local tax and other claims	26,124	33,728
Prepaid expenses	45,919	38,229
Receivable from exchange and concession partners	12,400	29,132
Advances to contractors	15,503	24,404
Refundable deposits	125	18,649
Employee receivables	6,175	1,357
Other	164,802	206,990
	349,234	422,210

Included within insurance, local tax and other claims is an amount of approximately KD 22 million (2004: approximately KD 22 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/PAYABLE

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 AMOUNT DUE FROM MINISTRY OF FINANCE

This represents an amount paid to settle a claim against one of the subsidiaries, charged to the Ministry of Finance.

9 SECURITIES

	2005 KD'000	2004 KD'000
Managed portfolios	4,397,847	2,052,124
Other	37,286	2,471,490
	4,435,133	4,523,614

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

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

	2005 *KD'000*	*2004* *KD'000*
Net book value at beginning of the year	**70,713**	63,524
Additions during the year, net	**1,690**	10,209
Amortisation charged during the year	**-**	(9,426)
Impairment losses for the year	**(6,454)**	-
Currency translation effects	**2,791**	6,406
Net book value at end of the year	**68,740**	70,713

On 1 April 2004, the group was required to implement prospectively IFRS 3 "Business Combinations" and as a result, the excess cost arising on acquisition is no longer amortised but restated for impairment at least annually. The net effect of implementing this standard on the year ended 31 March 2005 was a reduction in the charge against cost in excess of fair value of identifiable net assets acquired of KD 7 million.

11 OTHER NON-CURRENT ASSETS

	2005 *KD'000*	*2004* *KD'000*
Long term portion of trade receivables	**623,376**	542,980
Deferred expenses	**29,416**	21,499
Deferred tax asset	**9,276**	4,653
Intangible assets	**52,901**	33,972
Other	**29,000**	14,030
	743,969	617,134

Included in trade receivables and non-current trade receivables are KD 128 million (2004: KD 119 million) and KD 623 million (2004: KD 543 million) respectively due from the Ministry of Energy which do not carry any interest or fixed or determinable repayment dates.

Approximately KD 12.9 million (2004: KD 13.7 million) of deferred expenses represents catalysts used in the refining process which are amortised on a straight line basis over their estimated useful lives.

12 FIXED ASSETS

	Oil and gas properties KD'000	*Tankage, pipelines and jetties 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 2004, net of accumulated depreciation	266,351	366,823	756,526	75,168	344,348	47,717	5,991	315,520	939,914	3,118,358
Additions	68,591	71,104	131,034	3,002	14,969	12,087	40	134,809	215,960	651,596
Disposals	(14,894)	(4,151)	(8,630)	-	(41,913)	(1,364)	(20)	-	(12,280)	(83,252)
Transfers	12,653	61,289	211,397	-	(3,829)	7,282	2,151	-	(314,406)	(23,463)
Currency translation effects	166	2,266	14,515	-	8,537	409	254	-	3,499	29,646
Depreciation for the year	(27,967)	(42,421)	(130,605)	(11,723)	(26,620)	(21,386)	(1,450)	(57,135)	-	(319,307)
Impairment reversal	1,934	-	-	-	-	-	-	-	-	1,934
At 31 March 2005	**306,834**	**454,910**	**974,237**	**66,447**	**295,492**	**44,745**	**6,966**	**393,194**	**832,687**	**3,375,512**
Fixed assets										
At cost	598,494	1,432,704	2,831,414	276,380	651,977	239,719	30,161	973,142	832,687	7,866,678
Accumulated depreciation	(291,660)	(977,794)	(1,857,177)	(209,933)	(356,485)	(194,974)	(23,195)	(579,948)	-	(4,491,166)
Net carrying amount at 31 March 2005	**306,834**	**454,910**	**974,237**	**66,447**	**295,492**	**44,745**	**6,966**	**393,194**	**832,687**	**3,375,512**

The depreciation charged in the consolidated statement of income is reduced by KD 143 million (2004: KD 129.7 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.

13 OTHER CREDIT BALANCES

Other credit balances represent KD 29.5 million (2004: KD 28.1 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 31). KD 3.9 million (2004: KD 3.8 million) of this balance can only be utilised in accordance with the outcome of the litigation.

14 OTHER PAYABLES AND ACCRUALS

	2005 *KD'000*	*2004* *KD'000*
Short-term bank loans	**54,149**	90,247
Provision for annual leave and accrued compensation	**36,236**	29,611
Payable to contractors	**115,673**	106,989
Accruals	**39,553**	28,770
Sundry payables	**142,221**	76,472
Payable to exchange partners	**23,554**	17,642
Marine sub-charter and other marine payables	**57,276**	15,281
	468,662	365,012

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.

15 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.

16 PROFIT TO BE DISTRIBUTED

	2005 *KD'000*	*2004* *KD'000*
Balance at beginning of the year	**487,724**	460,307
Profit distributed during the year	**(487,724)**	(460,307)
Profit to be distributed	**1,423,599**	487,724
Balance at end of the year	**1,423,599**	487,724

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.

17 NON-CURRENT LIABILITIES

	2005 *KD'000*	*2004* *KD'000*
Employees' terminal benefits and pensions	**200,899**	179,351
Long-term loans	**141,485**	138,944
Deferred income taxes	**59,453**	25,799
Provisions	**36,808**	20,975
Other	**32,578**	29,777
	471,223	394,846

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 and a margin.

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 Belgium and Denmark.

18 STATUTORY RESERVE

In accordance with Article 12 of Law Decree No. 6 of 1980, 10% of the profit is to be transferred to statutory reserve; such transfer will be discontinued when the reserve equals 50% of the authorised and paid-up capital. Accordingly the transfer to statutory reserve, which is 4% of the profit for the year, is that amount required to raise the reserve to 50% of authorised and paid up capital.

19 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.

20 GENERAL RESERVE

In accordance with Article 12 of Law Decree No. 6 of 1980, 10% of the profit is to be transferred to the general reserve, the percentage of which may be changed in accordance with a resolution of the Supreme Council of Petroleum. An amount of KD 2,200 million equivalent to 58.28% of the profit has been transferred to the general reserve.

21 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.

21 RESERVE FOR REPLACEMENT AND RENEWAL OF FIXED ASSETS (continued)

The Board of Directors has proposed no transfer to the reserve as of 31 March 2005 (2004: KD 185 million), which is subject to approval of the Supreme Council of Petroleum.

22 REVENUES FROM ENGINEERING AND OTHER OPERATIONS

	2005 *KD'000*	*2004* *KD'000*
Engineering and construction	**4,120**	3,954
Marine operations	**33,799**	9,292
Merchandise and other services	**226,323**	212,023
	264,242	225,269

23 INVESTMENT INCOME

Included in investment income is KD 2,190 million relating to the realised gain on disposal of the Corporation's shareholding in Aventis S.A. and Sanofi Aventis.

24 OTHER INCOME

	2005 *KD'000*	*2004* *KD'000*
Gain (loss) on disposal of fixed assets	**1,493**	(3,429)
Recovery of financial cost	**61,423**	49,248
Foreign currency exchange gain (loss)	**57,528**	(7,291)
Miscellaneous income	**117,127**	13,136
UN compensation claim	**738**	9,158
	238,309	60,822

Included within miscellaneous income is approximately KD 53 million which represents the effect, in one of the Corporation's subsidiaries, of the early adoption of the revised International Accounting Standard 2 "Inventories" (IAS 2). The subsidiary previously priced crude oil and other products inventory using the "Last In First Out" method, which is not permitted under the revised IAS 2. The effect of this change in accounting policy has been included in the determination of the net profit for the year in the Corporation's financial statements in accordance with the allowed alternative treatment in IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". Had the change in accounting policy been accounted for retrospectively in accordance with the benchmark treatment in IAS 8, profit for the year would have decreased by the same amount. This change in accounting policy caused the profit for the year of the subsidiary to increase by KD 60 million.

Additionally, miscellaneous income includes gain on sale of Lube Oil Plant ("Division") of KD 19 million.

25 DIRECTORS' FEES

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

26 PROFIT BEFORE MINORITY INTERESTS

The profit before minority interests is stated after charging:

	2005 KD'000	*2004 KD'000*
Staff costs	**489,069**	453,089

At 31 March 2005 the Group had 18,571 employees (2004: 20,536 employees).

27 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 million 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 0.7 million (2004: KD 20.8 million) was received in part settlement. Of this amount, KD 0.7 million (2004: KD 9 million) is in respect of amounts due to the Group (Note 24).

28 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 623 million (2004: KD 543 million) are due from the Ministry of Energy (Note 11). 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:

	2005 USD'000	*2004 USD'000*	*2005 KD'000*	*2004 KD'000*
Foreign exchange contracts	**529,875**	618,818	**156,154**	182,610

The majority of the balances at 31 March 2005 relating to forward exchange contracts were in US dollars, with minimal amounts in Danish Krona, Pounds Sterling, Thai Baht and Swedish Kroner.

29 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.

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.

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.

30 EXPENDITURE COMMITMENTS

a) Operating lease commitments

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

	2005 KD'000	*2004 KD'000*
Future minimum lease payments:		
Within 1 year	**22,608**	21,430
Between 1 and 5 years	**66,124**	52,787
After 5 years	**41,594**	43,429
Aggregate operating lease expenditure contracted for at the balance sheet date	**130,326**	117,646

b) Capital expenditure commitments

Estimated capital expenditure contracted for by the Group at the balance sheet date but not provided for amounted to KD 587 million (2004: KD 549 million).

31 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 24).

(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 (approximately KD 19 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 $ 10.6 million and £1.4 million (KD 3.9 million) respectively to that subsidiary company. These amounts, which include accumulated interest have been classified under other credit balances (Note 13), as they can only be utilised in accordance with the outcome of the litigation.

31 CONTINGENCIES (continued)

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 $ 135 million in favour of that subsidiary. Interest is running on these sums from the date of judgment (15 December 1998). 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 $ 67 million, £ 7.8 million, EUR 1.7 million and CHF 4.1 million (approximately KD 25.6 million) of funds belonging to certain defendants have been recovered by the subsidiary company (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 13).

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.

32 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

Name of company	*Principal activities*
• 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. (Closed)	Exploration for and production of crude oil and natural gas.

32 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)

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

Name of company	*Country of Incorporation*	*Principal activities*
• SFIC Holdings (Cayman), Inc.	Cayman Islands	International contract drilling
• KPC Holdings (Aruba) AEC	Aruba	Refining, and marketing of refined products
• Petrochemical Resources Holding N.V.	Netherlands	Investment in other companies and financing activities

c) Principal associates

Name of company	*Country of incorporation*	*Proportion held*	*Principal activities*
• Kuwait Drilling Company K.S.C.	Kuwait	49%	Contract drilling
• Equate Petrochemical Company K.S.C.	Kuwait	42.5%	Petrochemicals
• Gulf Petrochemical Industries Company B.S.C.	Bahrain	33%	Petrochemicals
• Global Santa Fe Corporation	United States	19%	Contract drilling and related services
• First Fuel Marketing Company K.S.C. Kuwait	Kuwait	24%	Fuel marketing

d) Interest in joint ventures

Name of company	*Country of incorporation*	*Proportion held*	*Principal activities*
• MEGlobal Canada Inc.	Canada	50%	Petrochemicals
• MEGlobal B.V.	Netherlands	50%	Petrochemicals
• Equipolymers B.V.	Netherlands	50%	Petrochemicals

33 SUBSEQUENT EVENTS

On 14 April 2005, GlobalSantaFe purchased 23,500,000 shares of GlobalSantaFe at a net price per share of US $ 34.02 from SFIC Holdings (Cayman), Inc.