

Company Registration No. 886981

**Kuwait Petroleum International
Treasury Services Limited**

Report and Financial Statements

31 March 2004



Kuwait Petroleum International Treasury Services Limited

Report and financial statements 2004

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Kuwait Petroleum International Treasury Services Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2004.

Principal activity and review of the business

The principal activity of the company is to act as a group treasury company. The directors expect the level of business to remain stable in the future.

Results and dividends

During the year the company made a profit after taxation of US\$1,514,286 (2003 – US\$1,871,753). The directors recommended an interim dividend of US\$0.30 per ordinary share which was paid on 25 May 2004 (2003 – US\$0.30 per share). The retained profit of US\$14,256 (2003 – US\$371,723) will be transferred to reserves.

Directors and their interests

The directors during the year and to the date of this report were as follows:

S.A. Hakim
J.R. Howells
J. Al-Nouri
G. Smith

The directors have no interests which require disclosure under Schedule 7 of the Companies Act 1985.

Auditors

On 1 August 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



B R Edwards
Secretary

4 August 2004

KPC House
54 Pall Mall
London
SW1Y 5JH

Kuwait Petroleum International Treasury Services Limited

Statement of directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Kuwait Petroleum International Treasury Services Limited

We have audited the financial statements of Kuwait Petroleum International Treasury Services Limited for the year ended 31 March 2004 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

4 August 2004

Kuwait Petroleum International Treasury Services Limited

Profit and loss account Year ended 31 March 2004

	Note	2004 US\$	2003 US\$
Net income from treasury activities	2	2,597,858	2,627,677
Administrative expenses		<u>(1,083,572)</u>	<u>(755,924)</u>
Profit on ordinary activities before & after taxation	3, 5	1,514,286	1,871,753
Dividends paid and proposed	6	<u>(1,500,030)</u>	<u>(1,500,030)</u>
Retained profit for the period		<u>14,256</u>	<u>371,723</u>
Retained profit brought forward		<u>1,191,277</u>	<u>819,554</u>
Retained profit carried forward		<u><u>1,205,533</u></u>	<u><u>1,191,277</u></u>

There were no recognised gains or losses in either year other than the profit for the year. All operations of the company were continuing throughout both years.


Kuwait Petroleum International Treasury Services Limited

Balance sheet 31 March 2004

	Note	2004 US\$	2003 US\$
Current assets			
Debtors	7	597,771,049	399,630,671
Cash at bank		57,045	30,441
		<u>597,828,094</u>	<u>399,661,112</u>
Creditors: amounts falling due within one year	8	(591,409,450)	(393,256,724)
Net current assets		<u>6,418,644</u>	<u>6,404,388</u>
Total assets less current liabilities, being net assets		<u>6,418,644</u>	<u>6,404,388</u>
Capital and reserves			
Called up equity share capital	9	5,000,150	5,000,150
Profit and loss account	10	1,205,533	1,191,277
Capital contribution	10	212,961	212,961
Equity shareholders' funds	11	<u>6,418,644</u>	<u>6,404,388</u>

These financial statements on pages 4 to 11 were approved by the Board of Directors on the 4 August 2004.

Signed on behalf of the Board of Directors



J R Howells
Director

Kuwait Petroleum International Treasury Services Limited

Notes to the financial statements Year ended 31 March 2004

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below:

Basis of accounting

The financial statements are prepared under the historical cost convention, except for the revaluation of certain open forward foreign exchange contracts, and in accordance with applicable United Kingdom law and accounting standards.

Financial instruments and related disclosures

Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at the year end rates. All forward foreign exchange contracts which are open at the year end are revalued at rates of exchange applicable at the year end.

All profits and losses arising on the translation or revaluation of foreign currency assets, liabilities and forward foreign exchange contracts are recognised immediately in the profit and loss account. Gains and losses arising from the use of hedging instruments are recorded in the profit and loss account concurrently with losses and gains arising from the underlying hedged investments.

The profit and loss account includes unrealised gains and losses on forward foreign exchange contracts. The directors consider that this accounting policy, which represents a departure from the Companies Act 1985 where such items are not recognised until they crystallise, is necessary to provide a true and fair view as required under SSAP 20. The financial effect of the departure from the Companies Act 1985 is shown in note 12 to the financial statements.

Net income from treasury activities

Net income from treasury activities includes gains and losses on foreign currency operations, and interest receivable and payable accounted for on an accruals basis.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in a period different from those in which they are recognised in the financial statements.

Cash flow statement

The company's ultimate parent company, Kuwait Petroleum Corporation (note 14), presents consolidated financial statements which consolidate the results of the company and are publicly available. Accordingly under Financial Reporting Standard No. 1 no cash flow statement is included in these financial statements.

Kuwait Petroleum International Treasury Services Limited

Notes to the financial statements Year ended 31 March 2004

1. Accounting policies (continued)

Pensions

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged to the profit and loss account over the estimated average remaining working life of the scheme members. Any differences between the charge to the profit and loss account and the contributions paid to the scheme are shown as an asset or liability in the balance sheet. Further information on pension costs is provided in note 13.

2. Net income from treasury activities

	2004 US\$	2003 US\$
Net intercompany gain/(loss) on foreign currency borrowings	7,543,913	(7,332,694)
Net external (loss)/gain on foreign currency borrowings	(6,728,003)	8,188,584
Net gain on foreign currency borrowings	815,910	855,890
Net intercompany interest earned/(paid)	3,367,917	(741,801)
Net external interest (paid)/earned	(1,585,969)	2,513,588
Net interest earned	1,781,948	1,771,787
Net income from treasury activities	<u>2,597,858</u>	<u>2,627,677</u>

3. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2004 US\$	2003 US\$
Auditors' remuneration - audit fees	-	-

The audit fee for both years was borne by another group undertaking

Kuwait Petroleum International Treasury Services Limited

Notes to the financial statements Year ended 31 March 2004

4. Staff costs

Particulars of employees (including executive directors) are as shown below:

Employee costs during the year amounted to:

	2004 US\$	2003 US\$
Wages and salaries	258,235	229,139
Social security costs	26,160	21,270
Pension costs	37,186	32,375
	<u>321,581</u>	<u>282,784</u>

The average monthly number of persons employed by the company during the year was 3 (2003 – 3).

Directors' remuneration:

One director was remunerated by the company. The remuneration of the director was as follows:

	2004 US\$	2003 US\$
Emoluments	<u>168,089</u>	<u>147,243</u>

No other directors received nor were due any remuneration relating to services provided to the company in either period. No directors held share options in the company during the current or prior periods.

1 director (2003 – 1) was a member of a defined benefit pension scheme.

5. Tax on profit on ordinary activities

No provision has been made for corporation tax for the current period (2003 – US\$nil) on the basis that group relief is available.

	2004 US\$	2003 US\$
Profit on ordinary activities before tax	<u>1,514,286</u>	<u>1,871,753</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2003 – 30%)	454,286	561,526
Effects of:		
Capital allowances in excess of depreciation	(2,027)	(2,522)
Losses claimed as group relief	<u>(452,259)</u>	<u>(559,004)</u>
Current tax charge for the period	<u>-</u>	<u>-</u>

There are no material amounts of deferred tax at either year end.

Kuwait Petroleum International Treasury Services Limited

Notes to the financial statements Year ended 31 March 2004

6. Dividends paid and proposed

Dividends paid and proposed on equity shares:

	2004 US\$	2003 US\$
Interim proposed of US\$0.30 (2003 – US\$0.30) per ordinary share of US\$1	1,500,000	1,500,000
Interim proposed of US\$0.30 (2003 – US\$0.30) per ordinary share of £1	30	30
	<u>1,500,030</u>	<u>1,500,030</u>

7. Debtors

	2004 US\$	2003 US\$
Amounts falling due within one year:		
Amounts owed by other group undertakings	597,771,049	399,603,764
Prepayments and accrued income	-	26,907
	<u>597,771,049</u>	<u>399,630,671</u>

8. Creditors: amounts falling due within one year

	2004 US\$	2003 US\$
Bank loans and overdrafts (unsecured)	18,921,483	11,201,280
Amounts owed to other group undertakings	567,112,454	375,063,377
Other creditors (see below)	3,693,885	5,383,539
Accruals and deferred income	181,598	108,498
Proposed dividend – equity shares	1,500,030	1,500,030
	<u>591,409,450</u>	<u>393,256,724</u>

Other creditors mainly represents the mark to market position of open forward exchange contracts with third parties at the balance sheet date.

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Notes to the financial statements Year ended 31 March 2004

9. Called up share capital

	2004 £	2004 US\$	2003 £	2003 US\$
Authorised				
10,000,000 ordinary shares of US\$1 each	-	10,000,000	-	10,000,000
100 ordinary shares of £1 each	100	150	100	150
	<u>100</u>	<u>10,000,150</u>	<u>100</u>	<u>10,000,150</u>
Authorised, issued and fully paid				
5,000,000 ordinary shares of US\$1 each	-	5,000,000	-	5,000,000
100 ordinary shares of £1 each	100	150	100	150
	<u>100</u>	<u>5,000,150</u>	<u>100</u>	<u>5,000,150</u>

10. Reserves

Of total reserves shown in the company's balance sheet, the following amounts are regarded as distributable or otherwise.

	2004 US\$	2003 US\$
Distributable		
- profit and loss account	<u>1,205,533</u>	<u>1,191,277</u>
Non-distributable		
- capital contribution	<u>212,961</u>	<u>212,961</u>
Total reserves	<u>1,418,494</u>	<u>1,404,238</u>

11. Reconciliation of movements in equity shareholders' funds

	2004 US\$	2003 US\$
Profit for the year	1,514,286	1,871,753
Dividends paid and proposed	(1,500,030)	(1,500,030)
Opening equity shareholders' funds	<u>6,404,388</u>	<u>6,032,665</u>
Closing equity shareholders' funds	<u>6,418,644</u>	<u>6,404,388</u>

12. Financial commitments

In accordance with the company's accounting policy, all foreign currency exchange contracts are marked to market at the end of each month. At the year end the gross contract amounts of such contracts, none of which extended beyond 12 months, was US\$721,844,803 (2003 – US\$815,866,353). These amounts are indicative of trading volumes and not levels of risk. These contracts had unrealised losses at the year end, which have been recognised in the profit and loss account, of US \$3,437,344 (2003 – US\$3,185,634), which includes unrealised losses of \$3,670,403 (2003 – \$5,383,539) with respect to third parties.

Kuwait Petroleum International Treasury Services Limited

Notes to the financial statements

Year ended 31 March 2004

13. Pension costs

The group headed by Kuwait Petroleum (U.K. Holdings) Ltd operates a funded defined benefit pension scheme in the UK, the assets of which are held in a separate trustee administered fund.

The total pension cost for the company was £37,186 (2003 - £32,375). The pension cost has been assessed in accordance with the advice of qualified actuaries using the projected unit method and assumptions as set out in the accounts of the company's immediate parent undertaking, Kuwait Petroleum (UK Holdings) Limited. At the end of the year there was no accrual or prepayment (2003 - Nil). The most recent formal actuarial valuation of the scheme took place on 1 July 2003.

In accordance with FRS 17 "Retirement Benefits", the transitional disclosures of this standard have not been provided because it is not possible to identify the company's share of the assets and liabilities in the scheme on a consistent and reasonable basis. The latest actuarial valuation of the scheme, prepared for the purposes of making the transitional disclosures in accordance with FRS 17 in the consolidated financial statements of the immediate parent company, shows a net deficit position. Further details of this valuation can be found in the annual report of Kuwait Petroleum (UK Holdings) Limited.

14. Ultimate parent company and controlling party

The ultimate parent company and controlling party of the largest group of undertakings for which group accounts are drawn up, and of which the company is a member, is Kuwait Petroleum Corporation, incorporated in Kuwait. The parent company of the smallest such group is Kuwait Petroleum (UK Holdings) Limited whose principal place of business is at KPC House, 54 Pall Mall, London SW1Y 5JH. Copies of the consolidated accounts of Kuwait Petroleum (UK Holdings) Limited can be obtained from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

15. Related parties

The company has utilised the exemption in Financial Reporting Standard 8 'Related Party Disclosures' not to disclose transactions with other members of the group headed by Kuwait Petroleum Corporation.