

ARTHUR ANDERSEN

Kuwait Petroleum International Treasury Services Limited

Financial statements 30 June 1997
together with directors' and auditors' reports

Registered number: 886981



Directors' report

For the year ended 30 June 1997

The directors present their report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 30 June 1997.

Principal activity and business review

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 \$2,751,462 (1996 - \$1,791,220). The directors do not recommend payment of a dividend and the retained profit of \$2,751,462 (1996 - \$1,791,220) will be transferred to reserves.

Directors and their interests

The directors who served during the period were as follows:

S.A. Hakim

J.R. Howells

M.W. Northeast

A.R. Thomas (appointed 10 January 1997)

D.G. Rowlands (resigned 10 January 1997)

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

Fixed assets

The current software package was written off during the year due to a decision to upgrade the software. Details of movements in fixed assets during the year are set out in note 6 to the financial statements.

Directors' responsibilities

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 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report (continued)

Directors' responsibilities (continued)

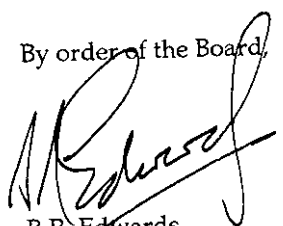
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Auditors

The directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

80 New Bond Street
London
W1Y 9DA

By order of the Board,



B.R. Edwards
Secretary

31 October 1997

Auditors' report

London

To the Shareholders of Kuwait Petroleum International Treasury Services Limited:

We have audited the financial statements on pages 4 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on pages 1 and 2 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

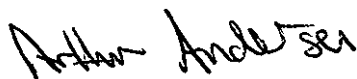
Basis of opinion

We conducted our audit in accordance with 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 circumstances of the company, 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 30 June 1997 and of the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

31 October 1997

Profit and loss account

For the year ended 30 June 1997

	Notes	1997 \$	1996 \$
Net income from treasury activities	2	3,629,876	2,771,875
Administrative expenses		(878,414)	(980,655)
Profit on ordinary activities before and after taxation	3	<u>2,751,462</u>	<u>1,791,220</u>
Retained profit for the year		2,751,462	1,791,220
Retained profit/accumulated (deficit), beginning of year		1,780,137	(11,083)
Retained profit, end of year	10	<u><u>4,531,599</u></u>	<u><u>1,780,137</u></u>

There were no recognised gains or losses in either the current or prior year other than those in the profit and loss account.

A reconciliation of movements in shareholders' funds is shown in note 11 to the financial statements.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

30 June 1997

	Notes	1997 \$	1996 \$
Fixed assets			
Tangible assets	6	-	50,000
Current assets			
Debtors	7	130,030,744	149,220,215
Short term deposit		10,178,867	-
Cash at bank		49,681	2,778
		140,259,292	149,222,993
Creditors: Amounts falling due within one year	8	(130,514,582)	(142,279,745)
Net current assets		9,744,710	6,943,248
Net assets		9,744,710	6,993,248
Capital and reserves			
Called-up share capital	9	5,000,150	5,000,150
Profit and loss account	10	4,531,599	1,780,137
Capital contribution	10	212,961	212,961
Shareholders' funds - equity interests	11	9,744,710	6,993,248

The accounts on pages 4 to 11 were approved by the board of directors on 31 October 1997 and signed on its behalf by:

J.R. Howells
Director

S.A. Hakim
Director

31 October 1997

The accompanying notes are an integral part of this balance sheet.

Notes to financial statements

30 June 1997

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:

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company's ultimate parent company Kuwait Petroleum Corporation prepares consolidated financial statements, which consolidate the result of the company, and accordingly, under Financial Reporting Standard No. 1 (Revised), no cash flow statement is included in these accounts.

b) Tangible fixed assets

Fixed assets are shown at cost. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Software	3 years (33% per annum)
----------	-------------------------

c) Financial instruments and related disclosures

Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at 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.

d) Taxation

Corporation tax payable is provided on taxable profits at the current rate. No provision for corporation tax is made where there is available group relief from other group companies. All group relief is surrendered without charge.

e) 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.

Notes to financial statements (continued)

2 Net income from treasury activities

	1997 \$	1996 \$
Net intercompany loss on foreign currency operations	(7,792,535)	(15,627,131)
Net external gain on foreign currency operations	10,627,596	16,327,816
Net gain on foreign currency operations	2,835,061	700,685
Net intercompany interest earned	2,834,544	8,186,010
Net external interest paid	(2,039,729)	(6,114,820)
Net interest earned	794,815	2,071,190
	<u>3,629,876</u>	<u>2,771,875</u>

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1997 \$	1996 \$
Depreciation and amounts written off tangible fixed assets	50,000	24,943
Auditors' remuneration		
- audit fees	9,679	40,880
Staff costs (see note 4)	<u>311,269</u>	<u>404,234</u>

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the year for both the current and prior year and their respective historical cost equivalents.

4 Staff costs

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

Employees costs during the year amounted to:

	1997 \$	1996 \$
Wages and salaries	263,058	353,812
Social security costs	22,614	17,595
Other pension costs	25,597	32,827
	<u>311,269</u>	<u>404,234</u>

The average weekly number of persons employed by the company during the period was 4 (1996 - 4). The company does not operate a pension fund scheme for any of its employees.

Notes to financial statements (continued)

4 Staff costs (continued)

Directors' remuneration:

The remuneration of the directors was as follows:

	1997	1996
	\$	\$
Emoluments	<u>55,063</u>	<u>75,184</u>

No directors held share options in the company during the current or prior year.

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director :

	1997	1996
	\$	\$
Emoluments	<u>50,447</u>	<u>50,625</u>

5 Tax on profit on ordinary activities

No provision has been made for corporation tax for the current year on the basis that group relief is available (1996 - \$nil).

Notes to financial statements (continued)

6 Tangible fixed assets

The movement in the year was as follows:

	1997 Software \$
Cost	
Beginning and end of year	74,943
Depreciation	
Beginning of year	24,943
Charge	50,000
End of year	74,943
Net book value	
Beginning of year	50,000
End of year	-

7 Debtors

	1997 \$	1996 \$
Amounts owed by other group undertakings	126,877,632	145,351,462
Prepayments and accrued income	489,209	2,808,429
Positions: net mark to market	2,663,903	1,060,324
	<u>130,030,744</u>	<u>149,220,215</u>

The above amounts owed by other group undertakings includes \$4,999,850 (1996 - \$4,999,850) receivable in more than one year.

8 Creditors: Amounts falling due within one year

	1997 \$	1996 \$
Bank loans and overdrafts	58,015	23,934
Overnight borrowings	6,819,649	89,208,727
Amounts owed to other group undertakings	123,354,554	52,758,142
Accruals and deferred income	282,364	288,942
	<u>130,514,582</u>	<u>142,279,745</u>

Notes to financial statements (continued)

9 Called-up share capital

	1997		1996	
	£	\$	£	\$
<i>Authorised</i>				
10,000,000 ordinary shares of \$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>
<i>Allotted, called-up and fully-paid</i>				
5,000,000 ordinary shares of \$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.

	1997	1996
	\$	\$
Distributable		
- profit and loss account	4,531,599	1,780,137
Non-distributable		
- capital contribution	212,961	212,961
Total reserves	<u>4,744,560</u>	<u>1,993,098</u>

11 Reconciliation of movements in shareholders' funds

	1997	1996
	\$	\$
Profit for the year and net addition to shareholders' funds	2,751,462	1,791,220
Opening shareholders' funds	6,993,248	5,202,028
Closing shareholders' funds	<u>9,744,710</u>	<u>6,993,248</u>

12 Financial commitments

As at the year end the company had \$605.3m (1996 - \$818.5m) of forward foreign exchange contracts. These amounts are indicative of trading volumes and not levels of risk. These off-balance sheet contracts had unrealised profits of \$2,663,903 (1996 - profits \$1,060,324).

Notes to financial statements (continued)

13 Ultimate parent company

The company's ultimate parent company is Kuwait Petroleum Corporation, incorporated in Kuwait. This is also the largest group in which the results of the company are consolidated. The smallest group in which the results of the company are incorporated is that headed by Kuwait Petroleum (UK Holdings) Limited, registered in England and Wales. Copies of the consolidated accounts of Kuwait Petroleum (UK Holdings) Limited can be obtained from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.