



Kuwait Petroleum International Treasury Services Limited

Financial statements 30 June 1998
together with directors' and auditors' reports

Registered number: 886981



Directors' report

For the year ended 30 June 1998

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 1998.

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 \$1,750,444 (1997 - \$2,751,462). The directors do not recommend payment of a dividend and the retained profit of \$1,750,444 (1997 - \$2,751,462) will be transferred to reserves.

Supplier payment policy

The company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

As the company has no trade creditors at year end no disclosure is made of the year end creditor days.

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

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

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)

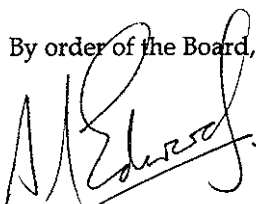
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

A handwritten signature in black ink, appearing to read 'B.R. Edwards', is written over the printed name.

B.R. Edwards
Secretary

14 August 1998

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 1998 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

14 August 1998

Profit and loss account

For the year ended 30 June 1998

	Notes	1998 \$	1997 \$
Net income from treasury activities	2	2,413,216	3,629,876
Administrative expenses		(662,772)	(878,414)
Profit on ordinary activities before and after taxation	3	<u>1,750,444</u>	<u>2,751,462</u>
Retained profit for the year		1,750,444	2,751,462
Retained profit, beginning of year		<u>4,531,599</u>	<u>1,780,137</u>
Retained profit, end of year	10	<u>6,282,043</u>	<u>4,531,599</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.

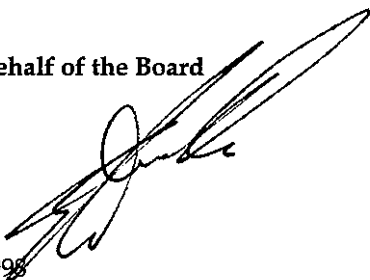
The accompanying notes are an integral part of this profit and loss account.

Balance sheet

30 June 1998

	Notes	1998 \$	1997 \$
Fixed assets			
Tangible assets	6	-	-
Current assets			
Debtors	7	356,452,428	130,030,744
Short term deposit		62,129,406	10,178,868
Cash at bank		33,480	49,681
		<u>418,615,314</u>	<u>140,259,292</u>
Creditors: Amounts falling due within one year	8	(407,120,160)	(130,514,582)
Net current assets		<u>11,495,154</u>	<u>9,744,710</u>
Net assets		<u>11,495,154</u>	<u>9,744,710</u>
Capital and reserves			
Called-up share capital	9	5,000,150	5,000,150
Profit and loss account	10	6,282,043	4,531,599
Capital contribution	10	212,961	212,961
Shareholders' funds - equity interests	11	<u>11,495,154</u>	<u>9,744,710</u>

Signed on behalf of the Board



J.R. Howells
Director

14 August 1998

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

Notes to financial statements

30 June 1998

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.

b) Cash flow statement

Under the provisions of Financial Reporting Standard No. 1 (revised), the company is exempt from reporting a cash flow statement since its parent company, Kuwait Petroleum (UK Holdings) Limited publishes consolidated financial statements which include a consolidated cash flow statement dealing with the cash flows of the group.

c) 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)
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d) 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.

e) 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.

f) 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

	1998 \$	1997 \$
Net intercompany loss on foreign currency operations	(5,885,760)	(7,792,535)
Net external gain on foreign currency operations	7,995,442	10,627,596
Net gain on foreign currency operations	2,109,682	2,835,061
Net intercompany interest earned	11,466,794	2,834,544
Net external interest paid	(11,163,260)	(2,039,729)
Net interest earned	303,534	794,815
	<u>2,413,216</u>	<u>3,629,876</u>

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1998 \$	1997 \$
Depreciation and amounts written off tangible fixed assets	-	50,000
Auditors' remuneration		
- audit fees	13,300	9,679
Staff costs (see note 4)	<u>208,264</u>	<u>311,269</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:

	1998 \$	1997 \$
Wages and salaries	174,754	263,058
Social security costs	15,233	22,614
Other pension costs	18,277	25,597
	<u>208,264</u>	<u>311,269</u>

The average weekly number of persons employed by the company during the period was 3 (1997 - 4). Certain employees are members of a group funded defined benefit pension scheme in the UK which also covers employees of fellow subsidiary undertakings in the UK. The assets of the scheme are held in a separate trustee administered fund.

Notes to financial statements (continued)

4 Staff costs (continued)

Directors' remuneration:

The remuneration of the directors was as follows:

	1998	1997
	\$	\$
Emoluments	<u>90,063</u>	<u>55,063</u>

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

Pensions:

The number of directors who were members of pension schemes was as follows:

	1998	1997
Defined benefit schemes	<u>1</u>	<u>1</u>

Highest paid director:

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

	1998	1997
	\$	\$
Emoluments	<u>90,063</u>	<u>50,447</u>

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 30 June 1998 was \$10,232 (1997 - \$8,770).

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 (1997 - \$nil).

Notes to financial statements (continued)

6 Tangible fixed assets

The movement in the year was as follows:

	1998 Software \$
Cost	
Beginning and end of year	74,943
Depreciation	
Beginning of year	74,943
Charge	-
End of year	74,943
Net book value	
Beginning of year	-
End of year	-

7 Debtors

	1998 \$	1997 \$
Amounts owed by other group undertakings	355,424,439	126,877,632
Prepayments and accrued income	655,751	489,209
Positions: net mark to market	372,238	2,663,903
	<u>356,452,428</u>	<u>130,030,744</u>

The above amounts owed by other group undertakings includes \$4,999,850 (1997 - \$4,999,850) receivable in more than one year.

8 Creditors: Amounts falling due within one year

	1998 \$	1997 \$
Bank loans and overdrafts	-	58,014
Overnight borrowings	26,932,384	6,819,648
Amounts owed to other group undertakings	379,945,101	123,354,554
Accruals and deferred income	242,675	282,364
	<u>407,120,160</u>	<u>130,514,582</u>

Notes to financial statements (continued)

9 Called-up share capital

	1998		1997	
	£	\$	£	\$
<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.

	1998	1997
	\$	\$
Distributable		
- profit and loss account	6,282,043	4,531,599
Non-distributable		
- capital contribution	212,961	212,961
Total reserves	<u>6,495,004</u>	<u>4,744,560</u>

11 Reconciliation of movements in shareholders' funds

	1998	1997
	\$	\$
Profit for the year and net addition to shareholders' funds	1,750,444	2,751,462
Opening shareholders' funds	9,744,710	6,993,248
Closing shareholders' funds	<u>11,495,154</u>	<u>9,744,710</u>

12 Financial commitments

As at the year end the company had \$1,243m (1997 - \$605.3m) of forward foreign exchange contracts. These amounts are indicative of trading volumes and not levels of risk. These off-balance sheet contracts had unrealised losses of \$234,944 (1997 - profits \$2,663,903).

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 financial statements are available from the registered office at 80 New Bond Street, London W1Y 9DA.

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