

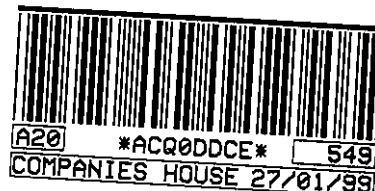
ARTHUR ANDERSEN

Kuwait Petroleum (U.K. Holdings) Limited

Accounts 30 June 1998

together with directors' and auditors' reports

Registered number: 2063581



Directors' report

The directors present their annual report together with the accounts and auditors' report for the year ended 30 June 1998.

Principal activity and review of business developments

The group's principal activity continues to be the distribution and marketing of petroleum products.

The group incurs expenditure on research and development of advanced fuels and lubricants for improved environmental and performance purposes. This expenditure is written off as incurred.

Results and dividends

The group's loss for the financial year amounted to £8,234,000 (1997 - £16,479,000).

The directors do not recommend the payment of a dividend (1997 - £nil).

Fixed assets

The fixed assets acquired by the group during the year are summarised in notes 8 to 10 to the accounts.

Disabled employees

The group gives every consideration to applications for employment from disabled persons where the requirements of a job may be adequately covered by a handicapped or disabled person. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee involvement

During the year the policy of providing employees with information about the group has been continued. Local management of operating units regularly consults with employees to enhance their understanding of the business and gain their involvement in the success of the group.

Political and charitable contributions

During the year the group made charitable contributions totalling £1,900 (1997 - £1,500).

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 is a holding company it has no trade creditors and accordingly no disclosure is made of the year end creditor days.

Directors' report (continued)

Contingencies

Year 2000

Management are aware that modifications may be required to the group's current information technology systems to enable the systems to continue to operate effectively into the year 2000. A review has therefore been initiated by management to ensure that appropriate steps are taken to enable the group's critical financial and operational systems to operate into the year 2000. All related costs, which are not of a capital nature, will be expensed as they are incurred. The group has not yet quantified the total costs expected to be incurred in connection with the year 2000 date change.

Directors and their interests

The directors who served during the year and afterwards were as follows:

K.A.M. Harami (chairman)

J.R. Howells

A.R.H. Thomas

No director held any disclosable interest in the share capital of the company or any other group undertaking during the year or at the date of this report.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group 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 group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

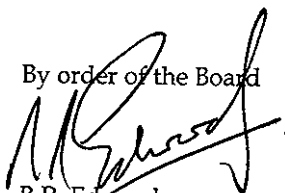
Directors' report (continued)

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', written over the printed name.

B.R. Edwards

Secretary

22 October 1998

Auditors' report

London

To the shareholders of Kuwait Petroleum (UK Holdings) Limited:

We have audited the accounts on pages 5 to 21 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

As described on page 2 the directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 30 June 1998 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

22 October 1998

Consolidated profit and loss account

For the year ended 30 June 1998

	Notes	1998 £'000	1997 £'000
Turnover	2	190,159	217,780
Cost of sales		(129,171)	(161,845)
Gross profit		60,988	55,935
Distribution costs		(35,174)	(34,369)
Administrative expenses		(30,720)	(34,383)
		(4,906)	(12,817)
Other operating income		2,087	2,509
Operating loss		(2,819)	(10,308)
Investment income	4	12,615	10,110
Interest payable and similar charges	5	(17,874)	(15,872)
Loss on ordinary activities before taxation	6	(8,078)	(16,070)
Tax on loss on ordinary activities	7	99	-
Loss on ordinary activities after taxation		(7,979)	(16,070)
Minority interests' share of profits	18	(255)	(409)
Loss for the financial year	17	(8,234)	(16,479)
Accumulated deficit, at beginning of year		(178,664)	(162,185)
Accumulated deficit, at end of year		(186,898)	(178,664)

All operations of the company and group continued throughout both years and no operations which have a material effect on the profit and loss account were acquired or discontinued.

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

Statement of total recognised gains and losses

For the year ended 30 June 1998

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Loss for the financial year	(8,234)	(16,479)	(6,531)	(5,604)
Gain (loss) on foreign currency translation	420	(418)	-	(249)
Total recognised gains and losses relating to the year	(7,814)	(16,897)	(6,531)	(5,853)

The accompanying notes are an integral part of this statement.

Consolidated balance sheet

30 June 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Intangible assets	8	7,846	12,962
Tangible assets	10	85,624	88,709
Investments	9	80	90
		<u>93,550</u>	<u>101,761</u>
Current assets			
Stocks	11	11,323	22,376
Debtors			
- amounts falling due within one year	12a)	247,763	120,108
- amounts falling due after more than one year	12b)	7,310	8,776
Cash at bank and in hand		43,265	14,778
		<u>309,661</u>	<u>166,038</u>
Creditors: Amounts falling due within one year	13	<u>(269,617)</u>	<u>(218,442)</u>
Net current assets (liabilities)		<u>40,044</u>	<u>(52,404)</u>
Total assets less current liabilities		<u>133,594</u>	<u>49,357</u>
Creditors: Amounts falling due after more than one year	14	<u>(303,456)</u>	<u>(211,653)</u>
Net liabilities	15	<u>(169,862)</u>	<u>(162,296)</u>
Capital and reserves			
Called-up equity share capital	16	15,000	15,000
Capital reserve		561	561
Profit and loss account		(186,898)	(178,664)
Minority interests	18	1,653	1,405
Foreign currency translation reserve		(178)	(598)
Equity shareholders' funds	17	<u>(169,862)</u>	<u>(162,296)</u>

Signed on behalf of the Board

J.R. Howells

Director

22 October 1998

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

Company balance sheet

30 June 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Investments	9	152,637	155,393
Current assets			
Debtors			
- amounts falling due within one year	12a)	1,521	1,724
- amounts falling due after more than one year	12b)	2,589	3,363
Cash at bank and in hand		294	59
		4,404	5,146
Creditors: Amounts falling due within one year	13	(4,595)	(95,623)
Net current liabilities		(191)	(90,477)
Total assets less current liabilities		152,446	64,916
Creditors: Amounts falling due after more than one year	14	(307,389)	(213,328)
Net liabilities	15	(154,943)	(148,412)
Capital and reserves			
Called-up equity share capital	16	15,000	15,000
Profit and loss account		(169,943)	(163,412)
	17	(154,943)	(148,412)

Signed on behalf of the Board

J.R. Howells

Director

22 October 1998

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

Notes to accounts

30 June 1998

1 Accounting policies

A summary of the group's principal accounting policies, all of which have been applied consistently throughout the year and with the preceding year, is set out below.

a) Basis of accounting

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

b) Basis of consolidation

The group accounts consolidate the accounts of Kuwait Petroleum (U.K. Holdings) Limited ('the company') and all its subsidiary undertakings made up to 30 June 1998. Details of the principal subsidiary undertakings included in the consolidation are set out in note 9. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of the acquisition or up to the date of disposal.

No profit and loss account is presented for Kuwait Petroleum (U.K. Holdings) Limited as provided by s230 of the Companies Act 1985. The company's results for the year are shown in note 17.

c) Cash flow statement

Under the provisions of Financial Reporting Standard No.1 (revised), the group has not prepared a cash flow statement because its ultimate parent company, which is incorporated in Kuwait, has prepared consolidated accounts, which include the results of the company and which are publicly available (see note 23).

d) Tangible fixed assets

Tangible fixed assets are shown at original historical cost. No provision is made for depreciation of freehold land. Other fixed assets in use are depreciated on a straight line basis at rates designed to write off costs, less residual values, over their estimated useful lives, having regard to the applicable operating circumstances and locations of the assets, as follows:

Freehold buildings	over 40 years
Leasehold land and buildings	over the unexpired portion of the lease
Plant, machinery and equipment	up to 10 years
Motor vehicles	from 3 to 5 years
Marine vessels	from 7 to 10 years

e) Fixed asset investments

Fixed asset investments are shown at cost less amounts written off. Provisions are made for permanent diminutions in value.

Notes to accounts (continued)

1 Accounting policies (continued)

f) Investments in joint ventures

Investments in joint ventures represent the cost incurred by a subsidiary undertaking of acquiring capital interests in several joint ventures, both incorporated and unincorporated, plus that undertaking's share of subsequent capital additions, less any provision for impairment. The cost of each unincorporated joint venture is amortised over the remaining life of the lease of the land on which the related assets are sited or the unexpired period of the licence, whichever is applicable.

g) Goodwill

The cost in excess of the fair value of net tangible assets of subsidiary undertakings acquired is capitalised and amortised in equal annual instalments over the shorter of its estimated useful economic life and fifteen years. Provisions are made for permanent diminutions in value.

h) Stocks

Refined petroleum products, including exchange balances in respect of stocks loaned to or from other oil companies, are valued at the lower of average cost and net realisable value. Materials and supplies are valued at selling price less gross margin.

i) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange prevailing at the year end. All forward foreign exchange contracts (which are not used for hedging purposes) which are open at year end are revalued at rates of exchange prevailing at the year end. Transactions denominated in foreign currencies are translated at the average exchange rate established for the month in which the transaction occurred. All these exchange differences are taken to the profit and loss account.

The profit and loss account includes unrealised gains on translation of long-term monetary items. The directors consider that this accounting policy (which represents a departure from the Companies Act 1985) 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 6a) to the accounts.

Gains and losses arising from the use of hedging instruments are recorded in the profit and loss account concurrently with gains and losses arising from the underlying hedged investments.

For the purposes of consolidation, the closing rate method is used under which translation gains or losses are shown as a movement on reserves. The profit and loss accounts of subsidiary undertakings with financial statements denominated in currencies other than pounds sterling are translated at the average exchange rate for the year.

j) Deferred taxation

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) is calculated using the liability method on all material timing differences except for those which are not expected to reverse without replacement in the foreseeable future.

Notes to accounts (continued)

1 Accounting policies (continued)

k) Pension costs

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 or credited to the profit and loss account over the estimated average remaining working life of the scheme members. Any difference between the charge to the profit and loss account and the contribution paid to the scheme is shown as an asset or liability in the balance sheet. Further information on pension costs is provided in note 22.

l) Leases

The group enters into finance and operating leases as detailed in notes 20 and 21 respectively.

Assets held under finance leases are initially reported at the fair value of the assets and are capitalised in the balance sheet and depreciated over the shorter of the lease term and their useful lives. An equivalent liability, categorised as appropriate under creditors due within or after one year, is included in the balance sheet.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are expensed on a straight line basis over the lease term, even if the payments are not made on the same basis.

m) Prior year comparatives

Certain prior year balance sheet amounts have been reclassified in order to be consistent with the current year's presentation.

2 Turnover

a) Turnover primarily represents amounts receivable (exclusive of VAT, excise duty and similar levies) in respect of goods and services.

b) Trading with related undertakings

Turnover includes petroleum products sold to, and expense allocations charged to, other related undertakings during the year amounting to £15.9m (1997 - £19.0m).

Cost of sales includes petroleum products purchased from, and expense allocations charged by, other related undertakings during the year of £2.7m (1997 - £1.6m).

Notes to accounts (continued)

2 Turnover (continued)

c) Turnover, all of which originated in the United Kingdom, was contributed as follows:

	1998 £'000	1997 £'000
Europe		
- United Kingdom	169,915	212,206
- other	17,966	2,044
Middle East	1,133	2,560
Far East	1,140	970
North America	5	-
	<u>190,159</u>	<u>217,780</u>

3 Group segmental results

The group operates substantially in only one geographical segment, the United Kingdom, and in one business segment, the marketing and distribution of petroleum products.

4 Investment income

	1998 £'000	1997 £'000
Interest income on bank deposits and short-term loans	139	139
Income from other investments	7,298	292
Interest on loans to fellow subsidiaries and other related undertakings	5,178	9,679
	<u>12,615</u>	<u>10,110</u>

5 Interest payable and similar charges

	1998 £'000	1997 £'000
Finance leases	32	35
Bank overdrafts and short-term loans		
- repayable within 5 years not by instalments	154	1,539
Loans from fellow subsidiaries and other related undertakings	17,688	14,298
	<u>17,874</u>	<u>15,872</u>

Notes to accounts (continued)

6 Loss on ordinary activities before taxation

a) *Loss on ordinary activities before taxation is stated after charging (crediting):*

	1998 £'000	1997 £'000
Staff costs (see b) below)	22,266	19,983
Auditors' remuneration		
– audit	153	138
– non-audit	116	82
Depreciation		
– owned assets	6,312	7,512
– assets held under finance leases	207	238
Amortisation of goodwill	5,116	5,115
Amortisation of investments in joint ventures	-	387
Foreign currency (gain) loss, net	(858)	1,987
	<hr/>	<hr/>

There is no material difference, for either year, between either the loss on ordinary activities before taxation or the loss for the financial year and their respective historical cost equivalents.

Foreign currency net loss (gains) includes unrealised loss of £8,000 (1997 – gains of £231,000) on translation of long-term monetary items (see note 1i)).

b) *Staff costs*

Employees, including executive directors:

	1998 £'000	1997 £'000
Wages and salaries	19,461	17,433
Social security costs	1,530	1,248
Other pension costs (note 22)	1,275	1,177
Redundancy costs	-	125
	<hr/>	<hr/>
	22,266	19,983

The average monthly number of employees during the year was 787 (1997 – 678).

Notes to accounts (continued)

6 Loss on ordinary activities before taxation (continued)

c) Directors' remuneration

	1998 £	1997 £
Emoluments (excluding pension contributions)	<u>754,840</u>	<u>857,531</u>

The directors remuneration shown above included the emoluments of the chairman and highest paid director, excluding pension contributions, of £410,639 (1997 - £374,593).

7 Tax on loss on ordinary activities

No provision has been made for corporation tax for the current year due to losses brought forward and the availability of group relief. There is no unprovided deferred corporation tax.

8 Intangible fixed assets

Intangible fixed assets comprise goodwill as follows:

Group	Cost £'000	Amortisation £'000	Net book value £'000
At 1 July 1997	76,730	(63,768)	12,962
Charge for the year	-	(5,116)	(5,116)
At 30 June 1998	<u>76,730</u>	<u>68,884</u>	<u>7,846</u>

The company has no intangible fixed assets.

Notes to accounts (continued)

9 Fixed asset investments

	Long term loans £'000
Cost and net book value	
As at 1 July 1997	90
Repayment	(10)
As at 30 June 1998	<u>80</u>

Fixed asset investments represent the following shareholdings in joint ventures held by a subsidiary undertaking in companies registered in England and Wales:

Hydrant Servicing Company Limited	40 ordinary £1 shares, representing 33.3% of the total nominal value of ordinary shares
Manchester Airport Storage and Hydrant Company Limited	25 ordinary £1 shares, representing 25% of the total nominal value of ordinary shares
Stansted Fuelling Company Limited	100 ordinary £1 shares, representing 14.3% of the total nominal value of ordinary shares
Heathrow Hydrant Operating Company Limited	100 ordinary £1 shares, representing 10% of the total nominal value of ordinary shares
Gatwick Airport Storage and Hydrant Company Limited	100 ordinary £1 shares, representing 12.5% of the total nominal value of ordinary shares

There are no listed fixed asset investments.

Notes to accounts (continued)

9 Fixed asset investments (continued)

Company

Investments in and loans to subsidiary undertakings are as follows:

	Investments £'000	Loans £'000	Total £'000
Balance at 1 July 1997	73,270	82,123	155,393
Advances	-	8,573	8,573
Repayments	-	(11,329)	(11,329)
Balance at 30 June 1998	<u>73,270</u>	<u>79,367</u>	<u>152,637</u>

The company's subsidiary undertakings, all of which are registered in Great Britain, are as follows:

<i>Name of company</i>	<i>Holding</i>	<i>Ownership</i>	<i>Nature of business</i>
Kuwait Petroleum (GB) Limited	106,744,000 £1 ordinary shares	100%	Marketing petroleum products
Ross Chemicals and Storage Co. Limited*	25,000 £1 ordinary shares	100%	Receipt, storage and delivery of petroleum products
Kuwait Petroleum International Aviation Co. Limited	100 £1 ordinary shares	100%	Agents for the supply of aviation fuel
Kuwait Petroleum International Aviation Co. (UK) Limited*	100 £1 ordinary shares	100%	Supply of aviation fuel
Kuwait Petroleum International Limited	100 £1 ordinary shares	100%	Administrative and advisory
Kuwait Petroleum International Treasury Services Limited	100 £1 ordinary shares 3,800,000 US\$1 ordinary shares	76%	Group treasury services
KPC Services Limited	100 £1 ordinary shares	100%	Oil broking
Kent Petroleum Limited	100 £1 ordinary shares	100%	Marine vessels
Kuwait Petroleum Corporation (UK) Limited	100,000 £1 ordinary shares	100%	Non-trading
Kuwait Petroleum Lubricants Ltd.	21,082,000 £1 ordinary shares	100%	Non-trading

*Subsidiary undertakings not directly owned by the company.

Notes to accounts (continued)

10 Tangible fixed assets

Group	Freehold land and buildings £'000	Short leasehold land and buildings £'000	Vehicles, plant and equipment £'000	Marine vessels £'000	Total £'000
Cost					
At 1 July 1997	72,749	1,782	57,610	15,932	148,073
Additions	71	48	4,066	-	4,185
Disposals	(89)	(485)	(2,346)	-	(2,920)
Reclassifications	229	(29)	(200)	-	-
At 30 June 1998	<u>72,960</u>	<u>1,316</u>	<u>59,130</u>	<u>15,932</u>	<u>149,338</u>
Depreciation					
At 1 July 1997	6,187	852	38,346	13,979	59,364
Charge	956	42	5,521	-	6,519
Disposals	(56)	(327)	(1,786)	-	2,169
Reclassifications	209	48	(257)	-	-
At 30 June 1998	<u>7,296</u>	<u>615</u>	<u>41,824</u>	<u>13,979</u>	<u>63,714</u>
Net book value					
At 30 June 1997	<u>66,562</u>	<u>930</u>	<u>19,264</u>	<u>1,953</u>	<u>88,709</u>
At 30 June 1998	<u>65,664</u>	<u>701</u>	<u>17,306</u>	<u>1,953</u>	<u>85,624</u>

The depreciable cost included in freehold land and buildings at 30 June 1998 amounted to £32,300,000 (1997 - £33,735,000).

The net book value of assets capitalised under finance leases, all of which are motor vehicles, amounted to £426,000 (1997 - £726,000). The depreciation charge for the year on these assets was £207,000 (1997 - £238,000).

The company has no tangible fixed assets.

11 Stocks

Group	1998 £'000	1997 £'000
Refined petroleum products	10,652	21,649
Spare parts, materials and supplies	671	727
	<u>11,323</u>	<u>22,376</u>

The estimated replacement cost of stocks is not materially different from historic cost. The company has no stocks.

Notes to accounts (continued)

12 Debtors

a) Amounts falling due within one year:

	1998 £'000	1997 £'000
Group		
Trade debtors	26,733	25,834
Amounts due from group undertakings	213,647	82,108
Other debtors	7,333	11,539
VAT receivable	50	627
	<u>247,763</u>	<u>120,108</u>

Company

Amounts due from group undertakings	1,461	1,655
Other debtors	60	69
	<u>1,521</u>	<u>1,724</u>

b) Amounts falling due after more than one year:

	1998 £'000	1997 £'000
Group		
Loan to other related undertaking	2,997	3,004
Loans to joint ventures	2,588	3,363
Loans to dealers	1,725	2,409
	<u>7,310</u>	<u>8,776</u>

Company

Loans to joint ventures	<u>2,588</u>	<u>3,363</u>
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Notes to accounts (continued)

13 Creditors: Amounts falling due within one year

Group	1998 £'000	1997 £'000
Obligations under finance leases (note 20)	305	276
Short-term loans and overdrafts	16,143	4,132
Trade creditors	24,373	24,680
Amounts due to group undertakings	209,659	158,619
VAT and other excise duties payable	5,412	24,623
Payroll taxes and social security costs	299	349
UK corporation tax payable	47	47
Other creditors	6,554	1,083
Accruals and deferred income	6,825	4,633
	<u>269,617</u>	<u>218,442</u>
Company		
Amounts due to group undertakings	<u>4,595</u>	<u>95,623</u>

14 Creditors: Amounts falling due after more than one year

Group	1998 £'000	1997 £'000
Obligations under finance leases (note 20)	62	313
Loans from group undertakings	303,189	210,517
Deferred income	205	823
	<u>303,456</u>	<u>211,653</u>
Company		
Loans from group undertakings	307,389	208,491
Loans from other related undertakings	-	4,837
	<u>307,389</u>	<u>213,328</u>

Loans from immediate and intermediate parent undertakings are denominated in sterling. They are interest free; however, for certain loans the lender has the right to charge interest at 12 month LIBOR +0.75%. They all have a 10 year term with the earliest repayment due in May 1999. They include amounts due after 5 years, not by instalments, of £93,385,000 (1997 - £70,198,304).

Notes to accounts (continued)

14 Creditors: Amounts falling due after more than one year (continued)

Loans from subsidiary undertaking are denominated in sterling, bear interest at sterling 12 month LIBOR +0.75% and have a term of 10 years. They are all due within 5 years, not by instalments.

Loans from fellow subsidiary undertakings are denominated in sterling. They all have a 10 year term with the earliest repayment due in June 2000. They include amounts due after 5 years, not by instalments, of £55,500,000 (1997 - £33,900,956). Interest rates vary by loan (LIBOR +0.5%, LIBOR +0.75% and 12.6875%) and on some of the loans interest may be rolled up at the option of the borrower.

15 Net liabilities

The company's and group's balance sheets show net liability positions at 30 June 1998 and 30 June 1997. An intermediate parent company has confirmed that it will continue to provide financial support to the company and the group to enable them to meet their liabilities as they fall due and has also confirmed it will not require repayment of amounts due to it until the company and the group have sufficient funds available. On the basis of this financial support the directors consider it appropriate to prepare the accounts on the going concern basis.

16 Called-up equity share capital

	1998 £	1997 £
<i>Authorised</i>		
100,000,000 (1997 - 100,000,000) ordinary shares of £1 each	<u>100,000,000</u>	<u>100,000,000</u>
<i>Allotted, called-up and fully-paid</i>		
15,000,100 (1997 - 15,000,100) ordinary shares of £1 each	<u>15,000,100</u>	<u>15,000,100</u>

17 Reconciliation of movements in shareholders' funds

Group	1998 £'000	1997 £'000
Loss for the financial year	(8,234)	(16,479)
Gain (loss) on foreign currency translation	420	(418)
Total recognised gains and losses	<u>(7,814)</u>	<u>(16,897)</u>
Minority interests	248	325
Net reduction in shareholders' funds	<u>(7,566)</u>	<u>(16,572)</u>
Opening shareholders' funds	(162,296)	(145,724)
Closing shareholders' funds	<u>(169,862)</u>	<u>(162,296)</u>

Notes to accounts (continued)

17 Reconciliation of movements in shareholders' funds (continued)

Company

	1998 £'000	1997 £'000
Loss for the financial year	(6,531)	(5,604)
Opening shareholders' funds	(148,412)	(142,808)
Closing shareholders' funds	<u>(154,943)</u>	<u>(148,412)</u>

18 Minority interests

	£'000
At 1 July 1997	1,405
Share of profit on ordinary activities after taxation	255
Foreign currency translation adjustment	(7)
At 30 June 1998	<u>1,653</u>

19 Capital and financial commitments

Group	1998 £'000	1997 £'000
Capital expenditure contracted	<u>1,381</u>	<u>729</u>

As at 30 June 1998 the group had £744,981,000 (1997 - £364,000,000) of forward foreign exchange contracts. These off-balance sheet contracts had unrealised losses of £143,000 (1997 - £1,650,000). In accordance with the company's accounting policy the losses are recognised in the profit and loss account concurrently with income arising from the underlying hedged item.

20 Finance leases

Total amounts due by the group under finance leases for motor vehicles at 30 June are set out below:

	1998 £'000	1997 £'000
Leases which expire		
- within 1 year	179	276
- within 2 to 5 years	-	313
	<u>179</u>	<u>589</u>

Notes to accounts (continued)

21 Operating leases

The group had annual commitments under non-cancellable operating leases for plant and equipment at 30 June as set out below:

	1998		1997	
	Land and buildings £'000	Other operating leases £'000	Land and buildings £'000	Other operating leases £'000
Leases which expire				
- within 1 year	-	599	15	453
- within 2 to 5 years	86	1,518	107	1,494
- after 5 years	785	64	915	197
	<u>871</u>	<u>2,181</u>	<u>1,037</u>	<u>2,144</u>

22 Pensions

The group operates a funded defined benefit pension scheme in the UK (the 'scheme'), the assets of which are held in a separate trustee administered fund.

The total pension cost for the group was £1,275,000 (1997 - £1,177,000). Of this, £823,000 (1997 - £769,000) relates to the above scheme. The remaining £452,000 (1997 - £408,000) is a recharge from a related group undertaking, representing contributions made to the Executive Pension Scheme. The pension cost of the scheme has been assessed in accordance with the advice of qualified actuaries using the projected unit method and assumptions set out below.

The most recent formal actuarial valuation of the scheme took place at 1 July 1997 and the information given below is based on those results.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in salaries and dividend income of the funds. It was assumed for the valuation that the investment return would be 9% per annum, that salary increases would average 7% per annum, and that the dividend income received by the funds would increase at 4.5% per annum. At the date of the valuation, the total market value of the assets of the scheme was £21.4 million, and the actuarial value of the assets was sufficient overall to cover approximately 112% of the benefits that had accrued to members at that date, after allowing for assumed future increases in earnings. This surplus will be carried forward until the next valuation.

23 Ultimate parent company

The parent company of the largest group of undertakings for which group accounts are drawn up, and of which the group is a member, is Kuwait Petroleum Corporation, incorporated in Kuwait. Copies of the consolidated accounts of Kuwait Petroleum Corporation may be obtained from Kuwait Petroleum Corporation, P.O. Box 26565, Safat, Kuwait.