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ARTHUR
ANDERSEN

Kuwait Petroleum International Limited

Accounts 30 June 1997
together with directors' and auditors' reports

Registered number: 1734259



Directors' report

For the year ended 30 June 1997

The directors present their annual report together with the accounts and auditors' report for the year ended 30 June 1997.

Principal activity and review of business developments

The principal activity of the company during the year was the provision of promotional, administrative and advisory services to subsidiary undertakings of its ultimate parent company, Kuwait Petroleum Corporation.

The company is operating at a satisfactory level of profitability and the directors do not believe that the scale of the company's operations will change significantly in the current year.

Results and dividends

The profit for the year, after taxation, amounted to £1,589,000 (1996 - £1,414,000).

The directors do not recommend the payment of any dividend.

Directors and their interests

The directors who served during the year were as follows:

K.A. Harami

J.R. Howells

J. Bryden

D.G. Rowlands (resigned 10 January 1997)

J. Al-Nouri (resigned 20 March 1997)

A.R.H. Thomas (appointed 10 January 1997)

M. Al-Qasim (appointed 20 March 1997)

The directors had no interest in the share capital of the company or any other group undertakings.

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 of the profit or loss of the company 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 company will continue in business.

Directors' report (continued)

Directors' responsibilities (continued)

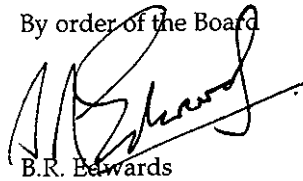
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company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

B.R. Edwards

Secretary

31 October 1997

Auditors' report

London

To the shareholder of Kuwait Petroleum International Limited:

We have audited the accounts on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on pages 1 and 2 the company's 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 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 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 at 30 June 1997 and of its profit 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

31 October 1997

Profit and loss account

For the year ended 30 June 1997

	Notes	1997 £'000	1996 £'000
Turnover	2	15,830	16,485
Administrative expenses		<u>(14,612)</u>	<u>(15,390)</u>
Operating profit		1,218	1,095
Interest receivable and similar income	3	488	384
Interest payable and similar charges	4	<u>(117)</u>	<u>(65)</u>
Profit on ordinary activities before taxation	5	1,589	1,414
Tax on profit on ordinary activities	6	<u>-</u>	<u>-</u>
Profit for the year		1,589	1,414
Retained profit, at beginning of year		<u>8,873</u>	<u>7,459</u>
Retained profit, at end of year		<u>10,462</u>	<u>8,873</u>

All operations of the company continued throughout both years. No operations were acquired or discontinued.

There are no recognised gains or losses for either year, other than the profit for the year.

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

Balance sheet

30 June 1997

	Notes	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	7	694	805
Current assets			
Debtors			
- Amounts falling due within one year	8a	8,867	9,092
- Amounts falling due after more than one year	8b	4,200	4,200
Cash at bank and in hand		317	681
		<u>13,384</u>	<u>13,973</u>
Creditors: Amounts falling due within one year	9	(3,578)	(5,788)
Net current assets		<u>9,806</u>	<u>8,185</u>
Total assets less current liabilities		<u>10,500</u>	<u>8,990</u>
Creditors: Amounts falling due after more than one year	10	(38)	(117)
Net assets		<u>10,462</u>	<u>8,873</u>
Capital and reserves			
Called-up equity share capital	11	-	-
Profit and loss account		<u>10,462</u>	<u>8,873</u>
	12	<u>10,462</u>	<u>8,873</u>

Signed on behalf of the Board

J.R. Howells

Director

31 October 1997

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

Notes to accounts

30 June 1997

1 Accounting policies

A summary of the company'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) Tangible fixed assets

Tangible fixed assets are shown at original historical cost. Depreciation is provided on a straight line basis on all tangible assets at rates designed to write off costs, less residual values, over their estimated useful lives, as follows:

Furniture and office equipment	7 years
Data processing equipment	3 years
Motor vehicles	4 years
Communication equipment	5 years
Building fixtures and fittings	7 years

c) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the 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 exchange differences are taken to the profit and loss account.

d) 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 14.

e) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation is calculated on the liability method. Deferred tax is provided on timing differences which, in the opinion of the directors, will probably reverse, at the rates of tax likely to be in force at the time of reversal.

Notes to accounts (continued)

1 Accounting policies (continued)

f) Leases

Assets held under finance leases are initially reported at the fair value of the asset 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 between 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.

g) Cash flow statement

The company's ultimate parent company, Kuwait Petroleum Corporation (note 15), presents consolidated financial statements which consolidate the results of the company and accordingly under Financial Reporting Standard No. 1 (revised) no cash flow statement is included in these accounts.

2 Turnover

Turnover represents amounts invoiced (exclusive of VAT) in respect of services provided to fellow subsidiary undertakings and other group and related group undertakings.

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

	1997 £'000	1996 £'000
United Kingdom	2,422	2,236
Overseas	13,408	14,249
	<u>15,830</u>	<u>16,485</u>

3 Interest receivable and similar income

	1997 £'000	1996 £'000
Receivable from immediate parent undertaking	288	350
Receivable from fellow subsidiary undertaking	196	13
Other interest receivable	4	11
Other income receivable	-	10
	<u>488</u>	<u>384</u>

Notes to accounts (continued)

4 Interest payable and similar charges

	1997 £'000	1996 £'000
Finance leases	8	26
Bank overdrafts	-	1
Foreign exchange loss	81	38
Payable to fellow subsidiary	28	-
	<u>117</u>	<u>65</u>

5 Profit on ordinary activities before taxation

a) Profit on ordinary activities before taxation is stated after charging:

	1997 £'000	1996 £'000
Staff costs (see below)	7,863	6,576
Depreciation		
- owned assets	214	349
- assets held under finance leases	41	70
Auditors' remuneration		
- audit	25	64
- non-audit	19	20
Operating lease rentals		
- plant and machinery	129	201
- other	108	10
	<u>7,863</u>	<u>6,576</u>

The audit fee includes amounts of £nil (1996 - £57,000) borne on behalf of other group companies.

b) Staff costs

	1997 £'000	1996 £'000
Employees, including executive directors:		
Wages and salaries	6,991	5,799
Social security costs	458	234
Pension costs (note 14)	414	543
	<u>7,863</u>	<u>6,576</u>

Notes to accounts (continued)

5 Profit on ordinary activities before taxation (continued)

b) Staff costs (continued)

Staff costs, including those in respect of executive directors, include a recharge of costs of £4,717,220 (1996 - £4,901,000) for 35 (1996 - 38) personnel employed by a related group undertaking in respect of services provided to the company.

The average number of employees during the year was 88 (1996 - 83) including those personnel employed by a related group undertaking.

c) Directors' remuneration

	1997 £'000	1996 £'000
Emoluments (excluding pension contributions)	<u>897</u>	<u>982</u>

The directors' remuneration shown above, excluding pension contributions, included the emoluments of the highest paid director, of £374,593 (1996 - £379,715). The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 30 June 1997 was £nil.

6 Tax on profit on ordinary activities

No provision has been made for corporation tax for the years ended 30 June 1997 and 30 June 1996 on the basis that group relief is available.

7 Tangible fixed assets

	Furniture and office equipment £'000	Data processing equipment £'000	Motor vehicles £'000	Communication equipment £'000	Building fixtures and fittings £'000	Total £'000
Cost						
At 30 June 1996	361	1,966	349	321	146	3,143
Additions	17	174	17	1	-	209
Disposals	-	-	(211)	-	-	(211)
At 30 June 1997	<u>378</u>	<u>2,140</u>	<u>155</u>	<u>322</u>	<u>146</u>	<u>3,141</u>
Depreciation						
At 30 June 1996	294	1,618	156	175	95	2,338
Charge	11	151	41	41	11	255
Disposals	-	-	(146)	-	-	(146)
At 30 June 1997	<u>305</u>	<u>1,769</u>	<u>51</u>	<u>216</u>	<u>106</u>	<u>2,447</u>
Net book value						
At 30 June 1996	<u>67</u>	<u>348</u>	<u>193</u>	<u>146</u>	<u>51</u>	<u>805</u>
At 30 June 1997	<u>73</u>	<u>371</u>	<u>104</u>	<u>106</u>	<u>40</u>	<u>694</u>

Notes to accounts (continued)

7 Tangible fixed assets (continued)

The net book value of assets capitalised under finance leases, all of which are motor vehicles, amounted to £104,000 (1996 - £193,000). The depreciation charge for the year on these assets was £41,000 (1996 - £70,000).

8 Debtors

	1997 £'000	1996 £'000
<i>(a) Amounts falling due within one year:</i>		
Amounts due from fellow subsidiary undertakings	2,836	4,420
Amounts due from other group undertakings	2,622	4,029
Amounts due from ultimate parent undertaking	483	16
VAT receivable	627	193
Other debtors	99	330
Prepayments	88	104
Amounts due from group undertakings not yet billed	2,112	-
	<u>8,867</u>	<u>9,092</u>
<i>(b) Amounts falling due after more than one year:</i>		
Loan to immediate parent undertaking	4,200	4,200
	<u>4,200</u>	<u>4,200</u>

9 Creditors: Amounts falling due within one year

	1997 £'000	1996 £'000
Bank overdrafts	-	54
Trade creditors	658	530
Amounts due to immediate parent undertaking	667	665
Amounts due to fellow subsidiary undertaking	1,031	1,373
Amounts due to other group undertakings	103	651
Amounts due to group undertakings not yet credited	-	1,467
Payroll taxes and social security costs	47	85
Accruals and deferred income	1,009	853
Obligations under finance leases	63	110
	<u>3,578</u>	<u>5,788</u>

10 Creditors: Amounts falling due after more than one year

	1997 £'000	1996 £'000
Obligations under finance leases (expiring within 2-5 years)	38	117
	<u>38</u>	<u>117</u>

Notes to accounts (continued)

11 Called-up equity share capital

	1997 £	1996 £
<i>Authorised, allotted, called-up and fully-paid</i>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

12 Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Profit for the year	1,589	1,414
Opening shareholders' funds	<u>8,873</u>	<u>7,459</u>
Closing shareholders' funds	<u>10,462</u>	<u>8,873</u>

13 Leasing commitments

At 30 June, the company had annual commitments under non-cancellable operating leases for plant and equipment and additional office space as set out below:

	1997 £'000	1996 £'000
Leases which expire		
- within 1 year	-	3
- within 2 to 5 years	105	53
- after 5 years	<u>108</u>	<u>108</u>
	<u>213</u>	<u>164</u>

14 Pension commitments

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 Scheme"). The assets of the Scheme are held in a separate trustee administered fund.

Directors and employees seconded to the company from other group companies are not included in this Scheme.

The total pension cost for the company for the year was £414,000 (1996 - £543,000). Of this £70,000 (1996 - £92,000) relates to the above Scheme. The remaining £344,000 (1996 - £451,000) is a recharge from a related group undertaking (see note 5b), representing contributions made to the Executive Pension Scheme. The pension cost has been assessed in accordance with the advice of qualified actuaries using the actuarial method and assumptions set out in the accounts of Kuwait Petroleum (UK Holdings) Limited, the immediate parent company.

Notes to accounts (continued)

14 Pension commitments (continued)

The most recent formal actuarial valuation of the scheme took place at 31 July 1994.

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

	1997 Number	1996 Number
Defined benefit schemes	3	2

15 Ultimate parent company

The parent company 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 80 New Bond Street, London W1Y 9DA. Copies of the consolidated accounts of Kuwait Petroleum (UK Holdings) Limited can be obtained from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.

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.