

Advanced Knowledge, Exceptional Performance

ANNUAL REPORT 2004 - 2005



Kuwait Petroleum Corporation

Our Mission

Our Vision

Our Values

Our Mission ...

Kuwait Petroleum Corporation (KPC) is a corporation of economic character, run on a commercial basis and fully owned by the State. It is one of the world's major oil & gas companies and its activities are focused on petroleum exploration and production, refining, marketing petrochemicals, and transport.

KPC's mission is to manage and operate these integrated activities worldwide in the most efficient and professional manner, in addition to increasing shareholder value whilst ensuring the optimum exploitation of Kuwait hydrocarbon resources.

KPC has an important role in the contributing to the support and development of the Kuwaiti economy, developing national manpower, maintaining superior commercial and technical expertise and proactively managing the environmental, health and safety aspects related to KPC's business.

Our Vision ...

Be a highly profitable and performance driven company
Contribute significantly to the support and development of Kuwaiti economy
Strengthen the world class reputation of all KPC's operations
Encourage continuous learning in all areas related to KPC's business.

Become a regional leader in HSE performance and apply the latest and the most appropriate technologies in KPC's operations

Our Values ...

- Motivating Environment
- Customer Satisfaction
- Teamwork
- Trust
- Commitment to HSE
- Honestly, Integrity and Transparency
- Quality and Excellence
- Innovation, Responsiveness



His Highness
Sheikh Saad Al-Abdullah Al-Salem Al-Sabah
The Crown Prince



His Highness
Sheikh Jaber Al-Ahmed Al-Jaber Al-Sabah
Amir of the State of Kuwait



His Highness
Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah
The Prime Minister



Kuwait Petroleum Corporation

Contents

Chairman's Message	4
Board of Directors	7
Financial Performance	8
International Oil Market Developments	10
Local Activities:	
Exploration, Production and Development	15
Onshore Operations	15
Marine Operations	16
Kuwait Project	16
Crude Oil Refining, Gas Liquefaction and Local Marketing	17
Chemical Fertilizers and Petrochemicals	22
Marine Transport	25
Aviation Fueling	27
International Activities:	
Exploration and Production	29
Refining and Marketing	29
International Marketing	30
Health, Safety and Environment (HSE)	32
Technology, Research and Development	36
Human Resources	38
Training and Career Development	40
Social and Media Services	42
Consolidated Balance Sheet	45

Chairman's Message



On behalf of my colleagues the board members and myself, it pleases me to present the annual report of Kuwait Petroleum Corporation (KPC) for fiscal year April 2004 - March 2005. This fiscal year saw important developments with clear influence on the revival of oil prices and the constant increase of world demand for this vital commodity.

The fiscal year represented a significant period in KPC history and witnessed great achievements thanks to the effort of its employees. This coincided with KPC celebrations in January 2005 of the Silver Jubilee for its founding. The course of days proved the well-advised vision of the Kuwaiti leadership when it resolved to establish the Corporation in 1980 for bringing oil companies under one umbrella with the aim of developing the oil industry and setting up an administrative authority to coordinate work and production in this vital sector.

During its drive throughout 25 years, KPC made great achievements that included qualifying thousands of Kuwaitis for management of oil sector, acquisition of the state-of-the-art technology, reconstruction of this sector after the gross damages caused by the Iraqi invasion and the great developments in the areas of exploration, production, refining, petrochemicals, security, safety and environment.

On this occasion, KPC held a ceremony under the patronage of H.H. the Prime Minister and Chairman of the Supreme Petroleum Council Shaikh Sabah Al-Ahmad Al-Jaber Al-Sabah for honoring former oil ministers who successively chaired the Corporation which also issued a memorial stamp commemorating the event.

During the fiscal year, KPC made record profits and a qualitative leap in its financial performance, KPC consolidated revenues during the fiscal year amounted to around KD 16417 million and the expenses around KD 12641.5 million and the consolidated profits KD 3775.5 million.

The financial statements of KPC subsidiaries showed a great noticeable improvement in their financial performance. Profits of Kuwait National Petroleum Company (KNPC) amounted to KD 628.3 million compared to around KD 94.9 in the previous fiscal year while the profits of Petrochemical Industries Company (PIC) amounted to KD 175.2 million compared to around KD 52.5 million and the profits of KPC Holdings (Aruba) KD 100.3 million compared to around KD 20.9 million in the previous fiscal year.

Many achievements were realized during the fiscal year in the area of involving the private sector in oil industry, including the establishment of the first private fuelling company, Al-Oula Fuelling and the Qurain Petrochemical Industries Company and launching their shares for general subscription, and selling the Lubrication Oil Blending Plant.

I would like to mention the new joint petrochemical investments made with the American Dow Chemical Company inside Kuwait in the Olefins and Styrene projects and in Europe and Canada in M.E. Global and Equipolymers Companies engaged in manufacturing and marketing ethylene glycol, pure terephthalic acid and polyethylene terephthalate.

For promoting long-term investment opportunities in the promising oil markets, KPC has opened a representative office in China considered the second major energy consumer market worldwide.

Kuwait Petroleum Corporation and a number of its subsidiaries succeeded in acquiring many world awards. The Corporation acquired the two certificates of Environment Preservation Management Systems and Occupational Health & Safety Preservation Management Systems. Further, the Petroleum Training Center was approved by "EFQM", eight KOTC tankers acquired Green Award Certificate at a time KOTC Marine Agency Branch acquired Quality Certificate and Mina Abdulla Refinery acquired the award of "best refinery in the Middle East".

KPC gave great attention to national employees by striving to optimally utilize their potentials and capabilities, and made steady efforts for developing and qualifying them to realize an added value to the oil sector.

For achieving that goal 1530 Kuwaitis were appointed during the fiscal year and an administrative affairs sector and a training & career development sector, both chaired by a managing director, were created.

A preliminary study for restructuring KPC Main Office and the optimal utilization of manpower were accomplished besides the commencement of honoring the long-serving employees.

KPC is considering to unify some oil sector systems special for performance, administrative regulations and incentives. In the meantime, a system has been prepared for success-sharing reward, individual reward and standards have been devised for rewarding the leaders in the sector as well as long-term plans up to the year 2020 have been drawn up for training and developing the human elements and qualifying and upgrading the national manpower at all work levels.

In conclusion, I call upon everybody to carry on with a sense of honest cooperation and team work so that, God willing, we can make greater achievements to promote the welfare and prosperity of our beloved country under the wise leadership of H.H the Amir, H.H. the faithful Crown Prince and H.H. the Prime Minister.

May the almighty Allah have mercy on our martyrs and protect Kuwait from any misfortune.

Ahmad Fahad Al-Ahmad Al-Sabah
Minister of Energy
Chairman of Kuwait Petroleum Corporation



Board of Directors



Hani Abdulaziz Hussein
Deputy Chairman &
CEO



Abdullah H. Al-Roumi
Managing Director
for Transportation
Chairman of KOTC



Ahmad Rashed Al-Arbeed
Managing Director-
Kuwait Project
Oil Development
Company



Sa'ad Al-Shuwailb
Managing Director
for Petrochemical
Industrial Chairman
of PIC



Jamal Al-Nouri
Managing Director,
International Marketing



Sami F. Al-Rushaid
Managing Director
for Refining & Local
Marketing
Chairman of KNPC



SH. Talal Al-Khaled Al-Sabah
Managing Director,
Petroleum Services



Farouk H. Al-Zink
Managing Director
for Exploration &
Production
Chairman of KOC



Khaled Saleh Buhamra
Managing Director, KPC



Abdul Malek Al-Gharabally
Managing Director, KPC



Yahya F. Al-Smaili
Managing Director, KPC

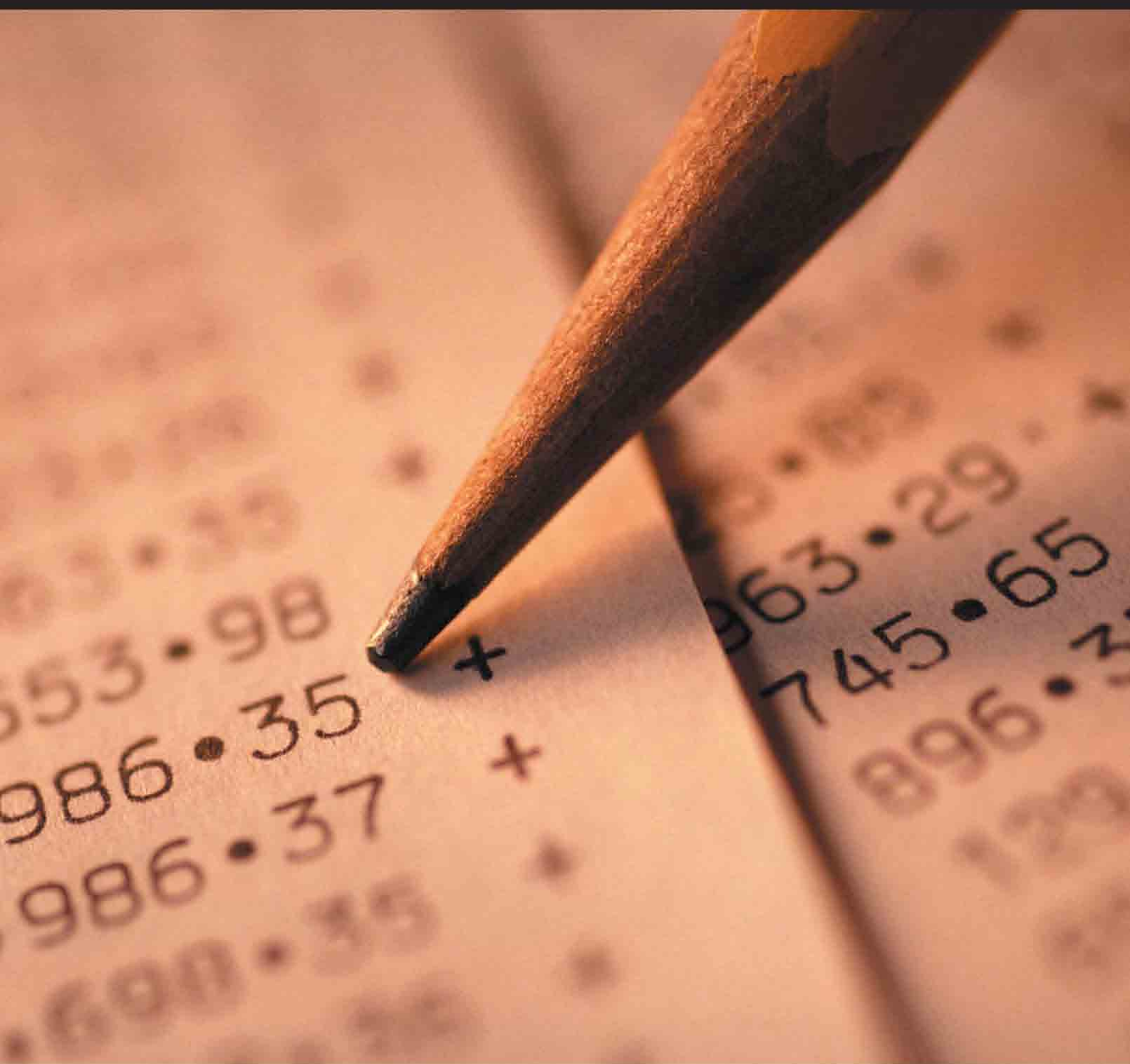


Issa M. Al-Oun
Managing Director, KPC
Under Secretary, Ministry
of Energy (Oil)



Mustafa Jasem Al-Shamali
Managing Director, KPC
Under Secretary, Ministry
of Finance

Financial Performance for Fiscal Year Ended at 31 March 2005

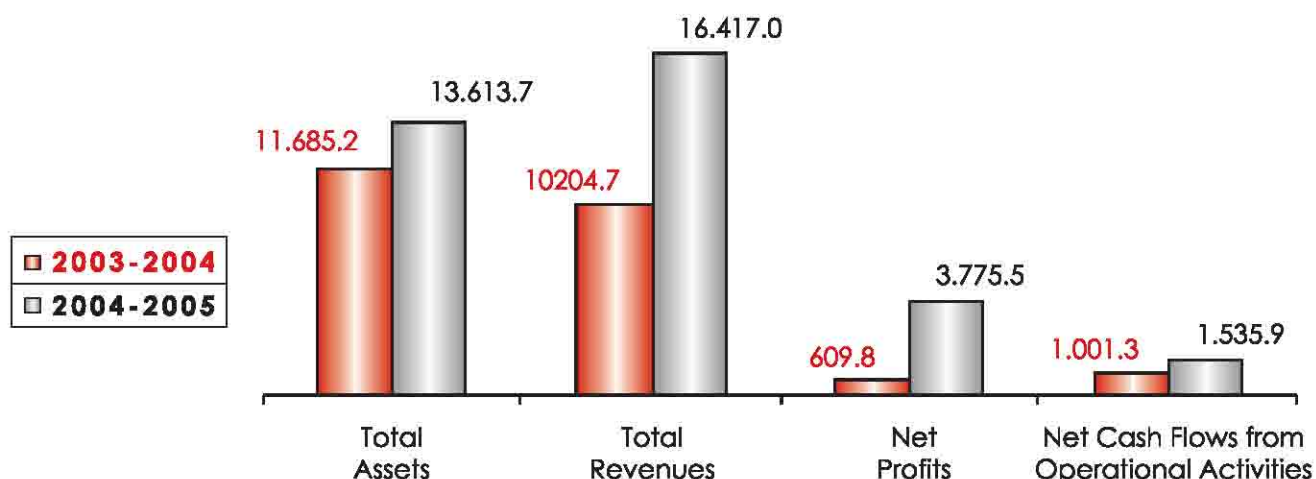


KPC's consolidated revenues for the fiscal year ended at 31 March 2005 amounted to KD 16417 million of which KD 13703.6 million were current operations revenues and KD 2713.4 million other net revenues while the consolidated expenses of KPC and its subsidiaries amounted to KD 12641.5 million.

Consolidated profits amounted to KD 3775.5 million (compared to KD 609.7 million in 2003/2004) of which the trading and operations profit stood at KD 1113.7 million (KD 473.3 million in 2003/2004), investment revenues KD 2482.5 million and the remainder amounting to KD 179.3 million represented other net revenues.

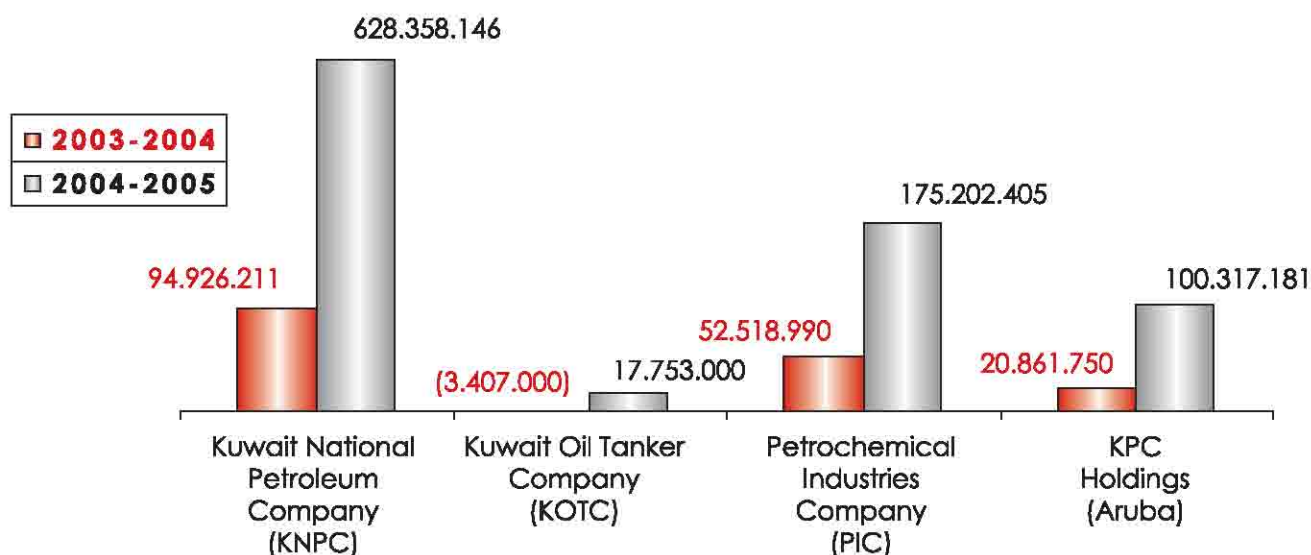
Return on the invested capital average amounted to 38.7% (7.1% in 2003/2004) while the return rate over the total equity average amounted to 40.5% (7.3% in 2003/2004).

Financial Performance for Fiscal Year (Million KD)



KPC succeeded in financing its current capital projects and posted dividend distribution to the State in the amount of KD 1423.6 million from self-generated sources. Investment in fixed assets during the fiscal year amounted to KD 628 million compared to KD 644 million in the previous fiscal year.

Financial results achieved by the subsidiary companies in 2004/2005 compared to the previous year (K.D.)



International Oil Market Developments



World Economy, Supply & Demand for Oil

The performance of world economy saw high and exceptional growth during the fiscal year (April 2004 - March 2005) that amounted to 5%, the highest general economic growth rate since the mid-seventies.

This resulted from the growth of American and Chinese market. The speedy growth of world economy during the fiscal year contributed largely to the constant use of energy. Energy consumption rose by 5.7 million barrels of oil equivalent and world demand for oil rose by 3.3% compared to the previous year despite the upward trend of oil prices. The growth of demand for oil contributed to the growth of energy mixture by 2.7 million barrels per day or 47% of the increase in addition to 3 million barrels per day or 53% for other non-oil energy sources.

In return, world oil supplies exceeded the increase of demand, which led to building the stockpile at high rates. Production rate from OPEC and non-OPEC countries together rose by 3.2 million barrels per day from 80.8 million to 84 million barrels per day, exceeding the demand by around 0.5 million barrels per day.

Production increase from outside OPEC was less than that in the previous year, which led to the rise of OPEC share in contributing to fulfilling oil supplies from 33.8% to 34.9%, which helped raise the level of world stockpile.

OPEC kept its success in controlling oil supply. The Organization continued control of production and constant monitoring of the level of the international stockpile in compliance with the then existing world demand levels. Thus, OPEC has succeeded in balancing world oil supply and demand. During the fiscal year, OPEC countries produced 27.4 million barrels per day.

Crude Oil Prices

During the fiscal year, crude oil prices saw an exceptional increase amounting to 30% compared to the previous year.

Crude oil prices (Benchmark North Sea Brent Oil) set off at high levels in the first half of the year and reached \$30 a barrels till August 2004 then exceeded \$40 a barrel.

In October, the prices peaked and exceeded \$50 a barrel. The main driver of price rise has been the exceptional demand for oil under the historical world economic revival rates. In this course, the Chinese demand for oil supported the price rise owing to the apprehension about the insufficiency of oil supplies or the inability to refine oil for meeting the types of demand. This also caused increased speculation in markets post-dated funds, which contributed strongly to price fluctuation.

Crude oil markets have been characterized by broad differences between light and heavy oil, owing to the strong demand for petrol and gas oil.

Petroleum Product Prices

Petroleum product prices reached a high level as a result of increased demand for light and medium products. Petrol prices remained high owing to the increased demand in USA, Asia and the Middle East. The strict specifications of gas oil for environment preservation contributed to keeping that market strong. This case was promoted by the structural restraints in the refining sector, which witnessed insufficient investment throughout many years in the Atlantic regions, especially in the USA. In Asia, too, the oil stockpile increase did not match the demand rates, owing to the failure to desulfurize it. Fuel oil remained weak in proportion to crude oil besides the shortage of refineries cracking capacity worldwide at a time the constant operation of refineries at high levels leads to the increase of fuel oil production in the market.

Highlighted by that, refining plants met the highest profit margins over many years, especially those (refining) plants characterized by the increase of their cracking capacity for producing light and medium products that cope with the types of world demand alongside largely reducing fuel oil production.

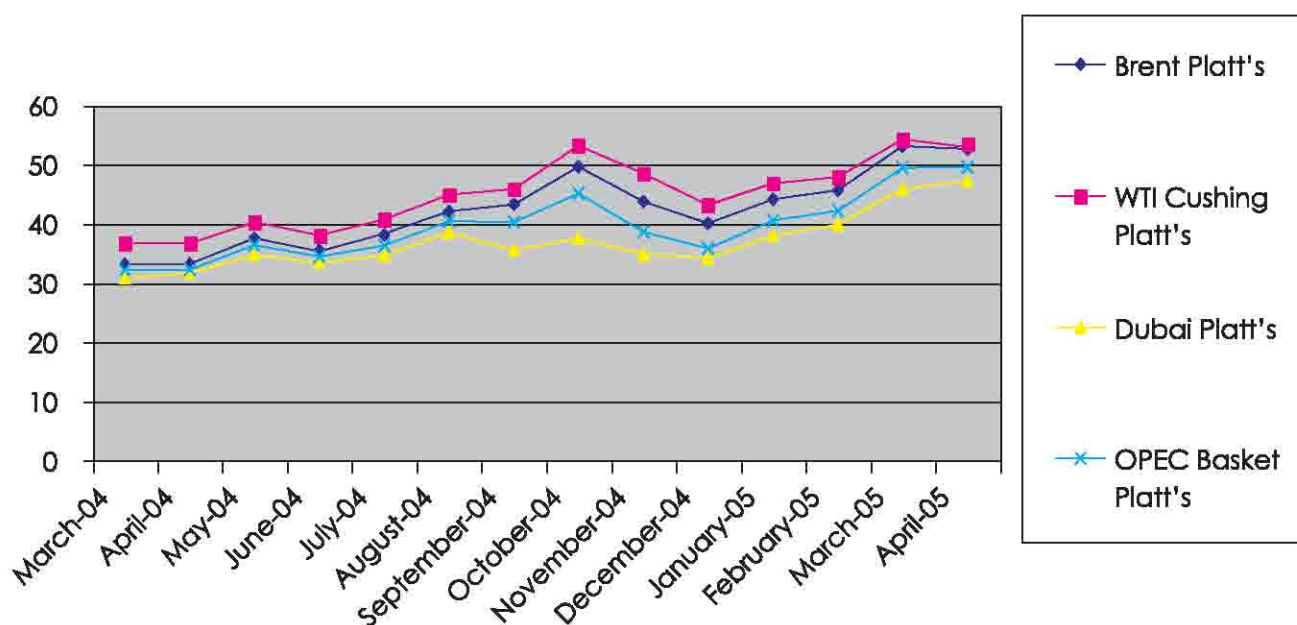
International Oil Market Developments

Petrochemical Prices

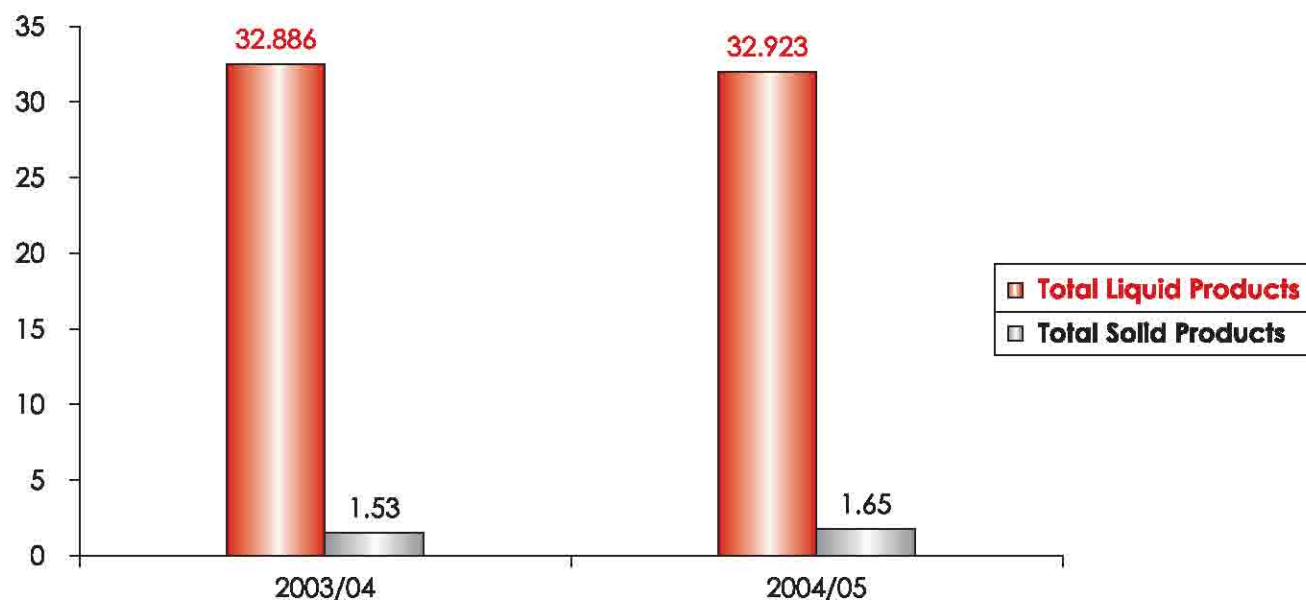
The world market witnessed high rates that exceeded demand for Urea. Many factors played a significant role in influencing the stability of Urea prices at high rates. The foremost reason was increased US demand due to the close down of many production capacities as a result of higher local gas prices. Further factors were the increase in demand from areas with importing markets such as South America, Asia and Australia and the lack of new capacities for export purposes due to the delay in execution of new projects during the term of the budget. The decrease of import rates were delayed due to China's imposed \$31 dollar tax per each exported metric ton as well as due to the existence of technical problems and cost increase in transport in the Ukraine.

Likewise, the world Ammonia market witnessed a sharp rise in price rates in all production and export areas at the beginning of the current fiscal year. This came about due to an increase in world demand and consumption against a shortage in global supply. The trend was furthered by increased feedstock gas prices in the USA and Canada as Ammonia prices reached its highest levels in more than 30 years, which led many Ammonia producers and consumers to close their plants leading to an increase in demand and a rise in Ammonia freight costs.

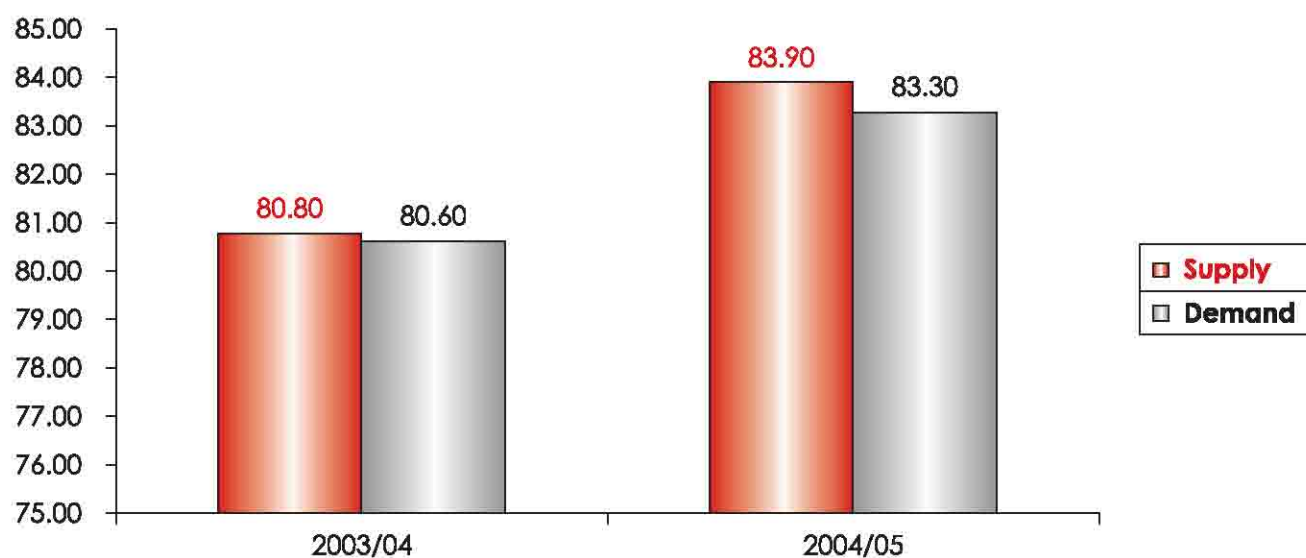
**Benchmark Prices
(US\$/Bbl)**



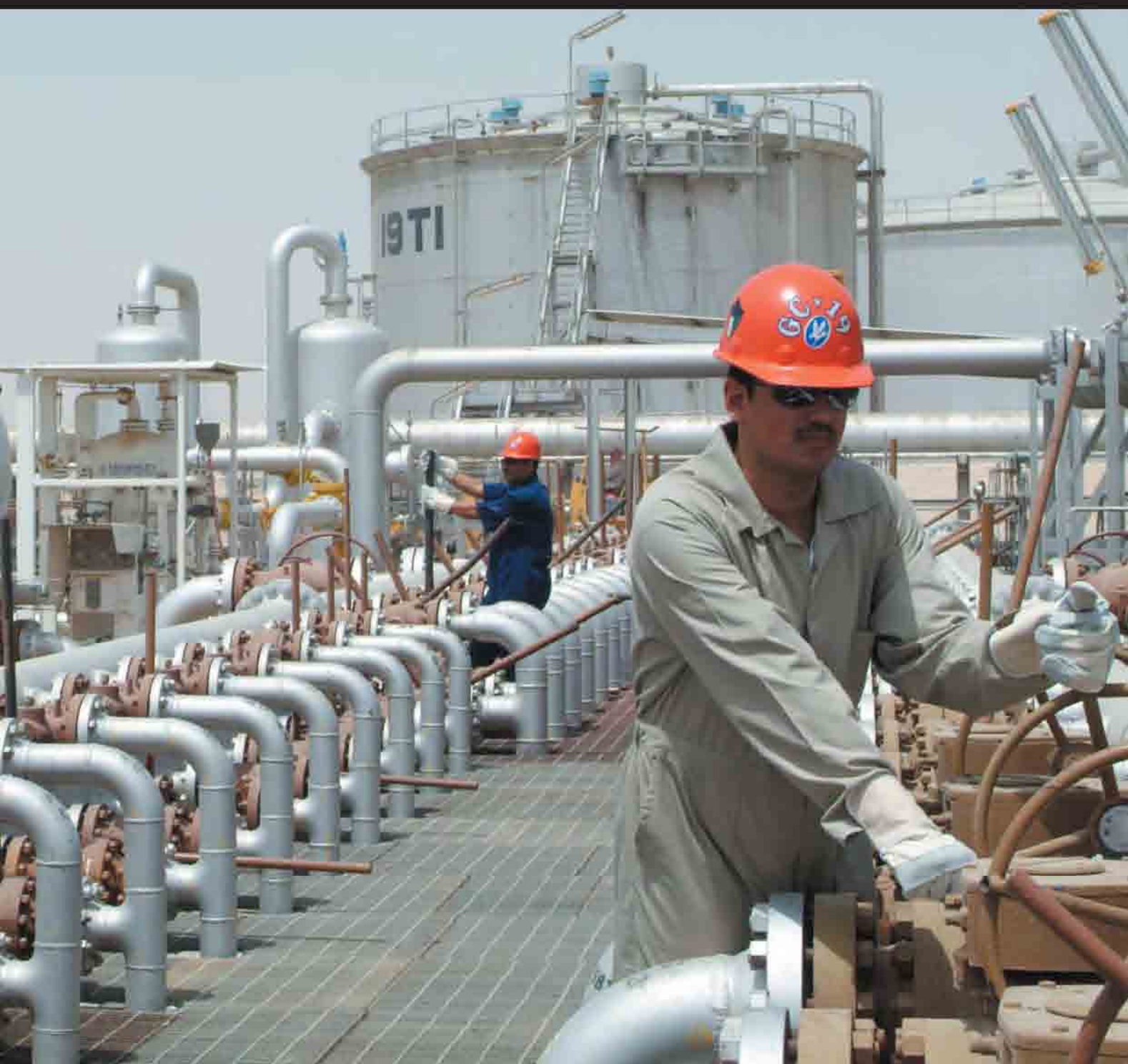
KPC Products Exports



World Oil Demand & Supply



Local Activities



Exploration, Production and Development Onshore Operations

KPC maintained a daily oil production rate of 2.360 million barrels during the fiscal year 2004 - 2005 from all of its fields, including the Kuwait share from the onshore Divided Zone. In the meantime, KPC's daily production of associated gas amounted to 1.141 billion cubic feet during the year, including its share in the onshore Divided Zone.

Kuwait Oil Company, a KPC subsidiary operating in the mainstream activity inside Kuwait and the onshore Divided Zone, pursued support of exploration, development and production operations through technical teams specialized in 2-D and 3-D seismic survey, re-processing the seismic survey data, building 3-D patterns for reservoir properties, and testing new technologies for reservoir description.

During the fiscal year 2004/2005, five (5) successful exploratory wells were drilled, namely: (NWRA-3) North West Raudhatain, Sabriya - 198, Raudhatain - 230, Kahloula -1 and Bahra - 28.

At the level of developmental drilling, 62 new wells were drilled beside the workover and maintenance of 122 wells in onshore fields (except for the Divided Zone) were carried out and the first horizontal well in western Kuwait fields was accomplished. Preliminary production results of the well were extremely encouraging.

As for increased oil reserves, extractable reserves were increased this year by 818 million barrels, including the Divided Zone.

Capital Projects

***Crude oil export terminals project at the two northern and southern tank farms and Mina Al-Ahmadi and building tank fueling terminals.**

The Central Tenders Committee (CTC) announced the project tender. Presenting of bids is expected in May 2005 and the project accomplishment is expected in October 2008. The cost of implementing these terminals is estimated at around KD 273 million.

***Re-building of Gathering Center-15 and Gas Booster Station-130 in northern Kuwait.**

89% of the works for re-building the Gathering Center and the Gas Booster Station have been completed. The cost of the project expected to be accomplished in April 2006 is estimated at around KD 100 million.

***Raising the capacity of Gathering Center-28 and installing gas compression unit and a unit for medium-wet crude oil treatment.**

The project contract was signed in February 2005 for increasing the Center's intake capacity by 60,000 barrels per day. The cost of the project expected to be accomplished in September 2007 is estimated at KD 29.2 million.

***Raising the capacity of Gathering Center -27, introducing adjustments to light crude oil desalination units and installing a new unit at Gathering Center -27.**

The project contract was signed in November 2004. Its cost is estimated at KD 13.3 million.

Local Activities

Marine Operations

Khafji Joint Operations / Divided Zone

Kuwait Gulf Oil Company, a KPC subsidiary, assumed its official duties starting 5th January 2005 as an effective partner with the Saudi side represented in Aramco Gulf Operations Company in the management of Khafji Joint Operations and the actual participation in taking daily decisions and shouldering their responsibilities pertinent to the course and follow-up of all joint operations activities in that vital area which contains large oil resources owned in half between the two countries.

The production average of Kuwait Gulf Oil Company during the fiscal year 2004/2005 reached around 150,000 barrels per day and 45,000 cubic feet of associated gas per day, which represents the share of the State of Kuwait in the offshore Divided Zone.

As for exploration and development operations, the Company, in cooperation with the Saudi side, went ahead in completing capital projects special for the plan of developing the fields in Khafji Joint Operations for reaching and maintaining a production capacity up to 350,000 barrels per day by the year 2008.

Also at Khafji Joint Operations a hydrocarbon resources management system was established and sanctioned. This system will be the substantive pivot for development in future exploration operations. However, the committee for rating & unifying the resources from the State of Kuwait recommended the adoption of the following standard systems:

- * Systems of the Society of Petroleum Engineers (SPE).
- * Systems of the World Petroleum Council (WPC).
- * Systems of the American Association for Petroleum Geology (AAPG).

As for the activities of geophysical and geological exploration of that area, Al-Hout Field seismic survey information, including 2-D and 3-D data, was re-processed and interpreted. Furthermore, a geophysical study of Khafji Field was carried out by the use of seismic properties for reservoir prediction. Heavy oil areas in the main fields were analyzed and potential hydro-carbonic reserves in deep offshore areas of the Divided Zone were studied. Also accomplished was the study of simulation for the second phase of Ratawi Field development plan to maintain a production rate of 50,000 barrels per day for 30 years.

Capital Projects

Costs of the Company's new capital and carried over projects totaled around KD 40.4 million distributed as follows: 41.9% for maintaining the production, 3.8% for improving profit, 36.6% for Health, Safety and Environment, 17.5% for drilling and exploration.

Kuwait Project

The establishment of a company specialized in developing Kuwait oil fields was approved. This company, considered one of the most important strategic projects, is chaired by the Managing Director of Kuwait Project. The new company's articles of association and administrative structure have been drafted. The approval of each of KPC board and the Strategy Committee of the Supreme Petroleum Council was obtained. The preliminary stages for building the Main Office of the company planned to be established were commenced.

As for Kuwait Project, all relevant documents have been recently presented to the National Assembly after presenting the Project to KPC board of directors. An amended draft law pertinent to regulating the recruitment of companies qualified for oil fields development and the explanatory memorandum of the project were also presented to the National Assembly.

The criteria were laid down for assessment of technical offers of the pre-qualified companies upon inviting the tender and starting the preparation of the project final tender. The Steering Committee special for the transition of North Kuwait operations, activities and employees to international oil companies has been formed. A "Due Diligence" study for the installations in the north was accomplished and pre-qualified consortiums were provided with copies of the international consultant's report on this subject.

Contracts were signed with local companies for carrying out the necessary publicity campaigns and conducting relevant opinion polls.

Crude Oil Refining, Gas Liquefaction and Marketing

Refining

The total refined crude oil at the 3 refineries at Mina Al-Ahmadi, Mina Abdulla and Shuaiba operated by Kuwait National Petroleum Company, a KPC subsidiary, amounted to around 321.45 million barrels per year, i.e. by rate of approximately 880.8 barrels per day, which almost conforms with the refining rate in the previous year that stood at around 881.5 thousand barrels per day.

Shuaiba refinery realized an increase of 3.5% in the rate of crude oil refining compared to the previous fiscal year. The quantities of crude oil refined there in the fiscal year 2004/2005 totaled around 71.4 million barrels per year, i.e. by rate of 195.6 thousand barrels per day. This increase refers to the scarcity of incidents that cause forcible suspension at the refinery units.

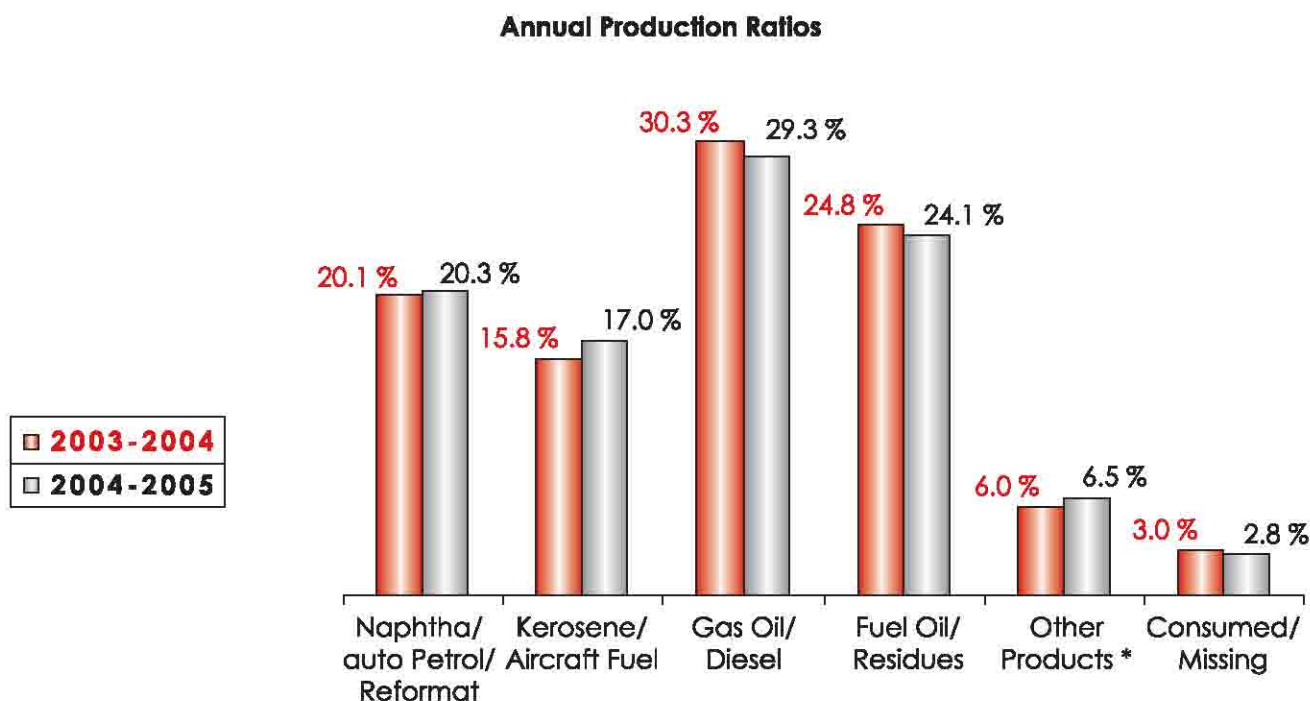
Refining rates at Mina Abdulla refinery set an unprecedented record figure. During this year, the refinery realized a crude oil refining rate of 269.19 thousand barrels per day, at an increase of up to 3% compared to the previous year. The refining rate at Mina Al-Ahmadi refinery reached 416,000 barrels per day, decreasing by 3.8% below that of the previous year.

Rate of crude oil refining at the 3 refineries - 1,000 bpd

Refinery	2003/2004	2004/2005
Shuaiba	188.1	195.6
Mina Abdulla	261.5	269.19
Mina Al-Ahmadi	432.2	416
Total	881.5	880.8

Local Activities

Produced quantities of petroleum materials at the 3 refineries during the fiscal year 2004/2005 totaled around 43.4 million metric tons, which is the same quantities produced in the previous fiscal year. The table below shows the ratios of petroleum materials production.



* They include liquefied petroleum gas from refineries, sulfur, petroleum coal and bitumen in addition to propylene gas.

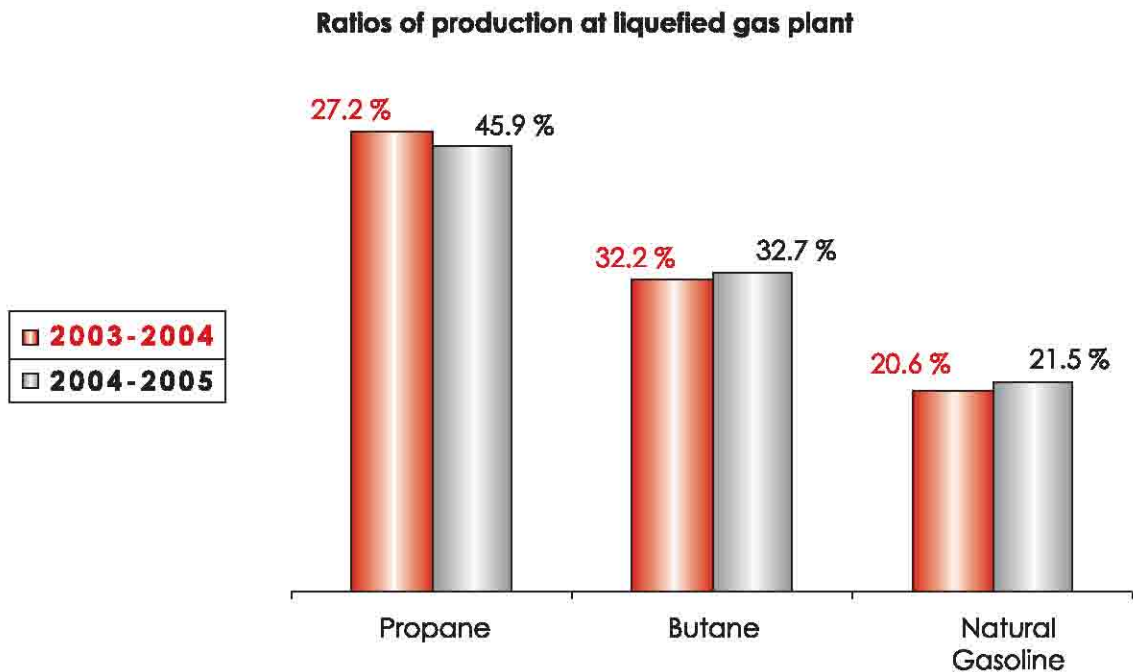
ISO9001-2000 certificate was obtained by two sections at Mina Abdulla refinery, namely: Lab Section and Inspection & Corrosion Section. Mina Abdulla refinery also obtained this year the award of the best refinery in the Middle East at the conference held in the UAE and attended by representatives of most international oil companies working in the area. Mina Abdulla refinery was selected to win this award in view of its distinctive achievements in the refining industry, the use of advanced technology and subsequently reaching excellence in production and operation.

Gas Liquefaction

The rate of feedstock for rich gas and condensates at the Gas Liquefaction Plant at the Mina Al-Ahmadi Refinery during the year amounted to around 1007.7 million cubic feet per day, at a slight increase over the previous year rate that stood at 968.4 million cubic feet. The feedstock rate represents the quantities of rich gas and condensates produced from oil fields in the State of Kuwait and refineries.

The plant production of propane gas in fiscal year 2004/2005 amounted to 1975.5 thousand metric tons against 1921.4 thousand metric tons in the previous year, butane gas 1408.1 metric tons against 1312.9 thousand metric tons in the previous year and lean gas 280.4 billion cubic feet against 269.3 billion cubic feet in the previous year.

The quantity of the plant exports of propane and butane during this year amounted to 3402.6 thousand metric tons, i.e. at an increase by 10.4% compared to the export quantity in the previous fiscal year when it amounted to 3081.2 thousand metric tons.



Local Activities

Local Marketing

The number of fueling stations whether operating, ready for commission or under modernization totaled 111 stations distributed all over the country where 90 of which are self-service operated and 21 use full service system. Work is in progress for building more stations to meet the noticeable increase of population and urban expansion in different areas besides the emergence of new residential areas. The building of 4 new stations has been completed and they entered actual service at a time work is underway for building another 9 stations.

Fuel sales in the local market recorded this year a noticeable increase of 4.5% over the sales of the previous year. The following table explains the fuel sales in the local market during the 2 fiscal years 2003/2004 and 2004/2005.

Local Marketing Sales (1000 liters)

Product	Fiscal years 2004/2005	Fiscal years 2003/2004	Percentage % of increase (decrease) compared to Fiscal year 2003/2004
Super Petrol (95 Octane)	1.638.547	1.483.829	10.4%
Premium Petrol	1.082.124	1.125.089	(3.8)%
Leaded Petrol (95 Octane)	-	14.276	-
Super Petrol (98 Octane) *	17.221	10.690	61.1%
Total Petrol (98 Octane)	2.737.892	2.633.884	3.9%
Kerosene	33.888	30.060	12.7%
Gas Oil (for Local Market)	956.077	903.341	5.8%
Total Fuel Sales for local Market	3.727.857	3.567.285	4.5%
Gas Oil to Energy Ministry (E&W)	84.848	97.030	(12.6)%
Heavy Fuel Oil to Energy Ministry (E&W)	7.505.744	6.910.006	8.6%
Total Sales to Energy Ministry (E&W)	7.590.592	7.007.036	8.3%
Total Fuel Sales	11.318.449	10.574.321	7.0%
Lubrication Oils	7.693**	10.501	(26.7)%
Bitumen (metric tons)	117.662	93.733	25.5%

*This product was launched during fiscal year 2002/2003.

**It represents lubrication oil sales up to 10th November 2004 as the activity was transferred to the private sector after that date.

Capital Projects

Many capital projects have been accomplished during the fiscal year. Many other projects are under completion and implementation as follows:

*** The re-vamping of the two desulfurization units for aerial distillation residual by the use of catalyst changing technology during operation**

The cost of this project amounted to around KD 50.5 million. The project was accomplished and commissioned successfully in October 2004. It aims at increasing the intake capacity of each of the two units from 33,000 to 44,000 barrels per day and extending the operational cycle up to 15 months. The profits the project is expected to realize are estimated at around KD 15.8 million per annum.

*** The re-vamping of the central control room at Shuaiba refinery.**

The project has been accomplished in full in April 2004 at the cost of around KD 15 million.

*** The building of a new pier and the re-habilitation of the Northern Shipping Pier at Mina Al-Ahmadi.**

The project includes the building of a new 4-point mooring pier to replace the Southern pier, renovation, repair and rehabilitation of the Northern pier to remain in service for 15 years to come in addition to carrying out the necessary repairs for the Southern pier, rehabilitating it to remain in service for 5 years, which is the period expected for building the new pier when the Southern pier will be removed. The Southern pier was inaugurated in February 2005. The cost of the project is estimated at KD 177 Million.

*** The building of a main office for the Kuwait National Petroleum Company (KNPC).**

The project aims at setting up a building for the company's employees. It will contribute to realizing KNPC objectives in terms of improving and providing suitable conditions for their performance of duties.

The project implementation is expected to come to an end in May 2005 at the cost of around KD 17.5 million.

*** The building of a new unit for extracting ethane gas at Mina Al-Ahmadi Refinery.**

The project aims at meeting the Olefins Project (2) needs of ethane gas feedstock. The project cost is estimated at around KD 140 million. Its implementation tender has been awarded to an international company and is expected to be accomplished in November 2007.

*** The boosting of the local market capacity for providing and distributing auto petrol.**

The project aims at increasing the flow rate of premium and super petrol from Mina Al-Ahmadi and Shuaiba refineries to the two local marketing depots for meeting the increasing demand for this kind of petrol at the local market. The cost of the project has been estimated at around KD 13.8 million and its accomplishment is expected in January 2006.

Local Activities

During this year, KPC has made tangible privatization achievements as follows:

*** Privatization of local marketing facilities**

KPC has accomplished the establishment of the Al-Oula local Fuelling. This company will undertake the acquisition, management and operation of 40 KNPC fuel stations. Procedures of selling these stations to the new company are expected to be completed next May. Work is in progress for establishing a second fuel local marketing company, which will also take acquisition of another 40 KNPC stations.

*** Privatization of the Lube Oil blending Plant**

Procedures of selling the lube oil blending plant at Shuaiba Refinery to a private sector company have been completed. The plant sale contract was signed with Arabi Energy Technology Company on 11th November 2004.

*** Privatization of the calcified coal project**

Measures are being taken to complete the transfer of the petroleum calcified coal project in full to the successful company awarded the project tender, the Petroleum Coal Industries Company. Signing of all the project contracts is expected in May 2005.

Chemical Fertilizers and Petrochemicals

During this year, international markets witnessed high rates of demand for fertilizer products, which helped raise the prices and make good profits. The fertilizer plants production of Ammonia and Urea in this fiscal year amounted to 470,000 and 675,000 metric tons respectively.

Ammonia and Urea exported quantities this year amounted to around 68,000 and 684,000 metric tons respectively.

As for the polypropylene plant, its production amounted to 117,000 metric tons this year. Polypropylene sales set a record figure this year since the operation of the plant as they reached 127,000 metric tons, at an increase by 21% of the quantities targeted in the budget.

Joint Investments

1. Current Joint Investments

*** Equate Petrochemical Company**

In 2004, the Company made record profits that amounted to around US \$ 621 million as a result of the rise of polyethylene and ethylene glycol prices and the increase of demand for petrochemical products. During this year, a change in the company's ownership quotas took place for increasing the Kuwaiti private sector participation in the petrochemical industry. Qurain Petrochemical Industries Company was involved as a new partner by the proportion of 6%. Therefore, the Petrochemical Industries Company's ownership proportion has become 42.5%, Dow Chemical Company 42.5% and Boubyan Petrochemical Company 9%.

*** Gulf Petrochemical Industries Company**

The company in which KPC, represented by Petrochemical Industries Company, owns an interest of 33.33% of the capital, made in 2004 actual net profits in the amount of around Bahraini Dinars (BD) 36 million against BD 25 million in the previous year as a result of the improved Ammonia, Urea and Methanol markets and the rise of prices.

*** The Sino-Arab Chemical Fertilizer Company**

KPC, represented by Petrochemical Industries Company, owns an interest of 30% of the capital. The two partners in the Arab side (Kuwait & Tunisia) agreed to lease their interest to the Chinese partner in the Company against a fixed annual return of 10.5% on their invested capital amounting to US \$ 10.5 million.

2. New Joint Investments

For realizing KPC's strategic directions in petrochemical activity through expansion inside and outside Kuwait in participation with a foreign partner, KPC subsidiary, the Petrochemical Industries Company succeeded in getting involved in a strategic joint venture with the American Dow Chemical Company. The strategic alliance agreement was signed between the two parties and was translated by Dow Chemical Company's participation in assets outside Kuwait in Canada and Europe. These assets are summed up as follows:

*** M.E. Global Company (Headquarters - UK)**

It was established in July 2004. Petrochemical Industries Company and the American Dow Chemical Company participate in it by 50% each. M.E. Global undertakes manufacturing and marketing of mono-ethylene, glycol and bi-ethylene glycol. It owns 3 ethylene glycol plants in Canada at a production capacity of 970,000 tons per annum. The company's net profit amounted to US \$ 172 million during its operation period starting 1st July 2004 through 31st December 2004.

Local Activities

*** Equipolymers Company (Headquarters - Switzerland)**

The company was established in July 2004. Petrochemical Industries Company and Dow Chemical participate in it by 50% each. The company undertakes manufacturing the pure terephthalic acid at a production capacity of 170,000 tons per year and polyethylene terephthalate at a production capacity of 450,000 tons per annum through 3 plants in Italy and 2 plants in Germany. The company's net profits amounted to US \$ 2.8 million during its operation period starting 1st July 2004 through 31st December 2004.

As for expansion in petrochemical activity inside the State of Kuwait, steady efforts were made this year for implementing the Aromatics, Styrene and 2nd Olefins Projects.

*** The Aromatics Project**

International contractors were pre-qualified to undertake detailed engineering, supply and construction works. A tender was invited for the project, which will produce paraxylene at a production capacity of 770,000 tons per year and benzene at a production capacity of 370,000 tons per year. In the 3rd quarter of 2004 the Kuwait Aromatics Company was established. It will assume the ownership of the project expected to be completed in April 2008 when the Aromatics plant will start operation.

*** The Styrene Project**

The project unit's technology was selected and the project tender invited during the 1st quarter of 2005. In the 4th quarter of 2004 the Kuwait Styrene Company was established as the Kuwait Aromatics Company and Dow Chemical Company participate by 57.5% and 42.5% respectively. The project is expected to be completed and the styrene plant to start operation in April 2008 for producing 450,000 tons of Styrene per year.

*** The 2nd Olefins Project**

The tender for engineering, supply and construction of the ethylene unit was invited in October 2004. The glycol and polyethylene unit tender will be invited during the 2nd and 3rd quarters of 2005. The Kuwait Olefins Company was established in September 2004. Petrochemical Industries Company participates in it by around 42.5%, Dow Chemical Company by an equal share, the private sector represented in Boubyan Petrochemical Company by 9% and Qurain Petrochemical Industries Company by 6%.

The project will produce polyethylene, ethylene glycol and propylene at a capacity of 300,000 tons, 650,000 tons and 20,000 tons per annum respectively. The project is expected to be completed and the 2nd Olefins plant to start operation in April 2008.

Within the framework of implementing KPC strategic guidelines by encouraging the private sector participation in oil projects, Qurain Petrochemical Industries Company was established in November 2004 with a capital of KD 110 million of which the Petrochemical Industries Company's share is KD 11 million at which time KD 99 million was launched for general subscription. In March 2004, Qurain Company signed joint venture contracts under which it owns 6% of Equate Petrochemical Company, 20% of Kuwait Aromatics Company and 6% of the Kuwait Olefins Company.

Marine Transport

The international marine transport market witnessed historical boom during fiscal year 2004/2005, especially in the 3rd quarter. In general, marine transport rates set high record figures unseen by the market for over 30 years. The reasons refer to the boom in world economy, especially the economy of western countries and that of China now considered the main driver of the Asian economy, which led to the increase of demand for oil, the rise of its prices and consequently tanker chartering rates.

Quantities of crude oil petroleum products and liquefied petroleum gas transported by KOTC, a KPC subsidiary, totaled around 25.615 metric tons, rising by 1.620 million metric tons, i.e. an increase by 6.75% over the quantities transported in the previous year.

The time chartering rate of "Modern VLCC" oil tankers soared to \$61,000 per day, i.e. at an increase by 69% over the previous year rate. Time chartering rate of "Panamax-size" petroleum product tankers also rose by 47% to reach \$28,000 per day and "Handymax-size" by 21% to reach \$ 17,000 per day over that of the previous year. Meantime, the time chartering rate of "Modern VLCC" liquefied petroleum gas tankers reached \$ 918,000 per day, at an increase by 28% over that of the previous year.

The following table and chart show the total tankers, their tonnage and the quantities transported up to the end of the fiscal year:

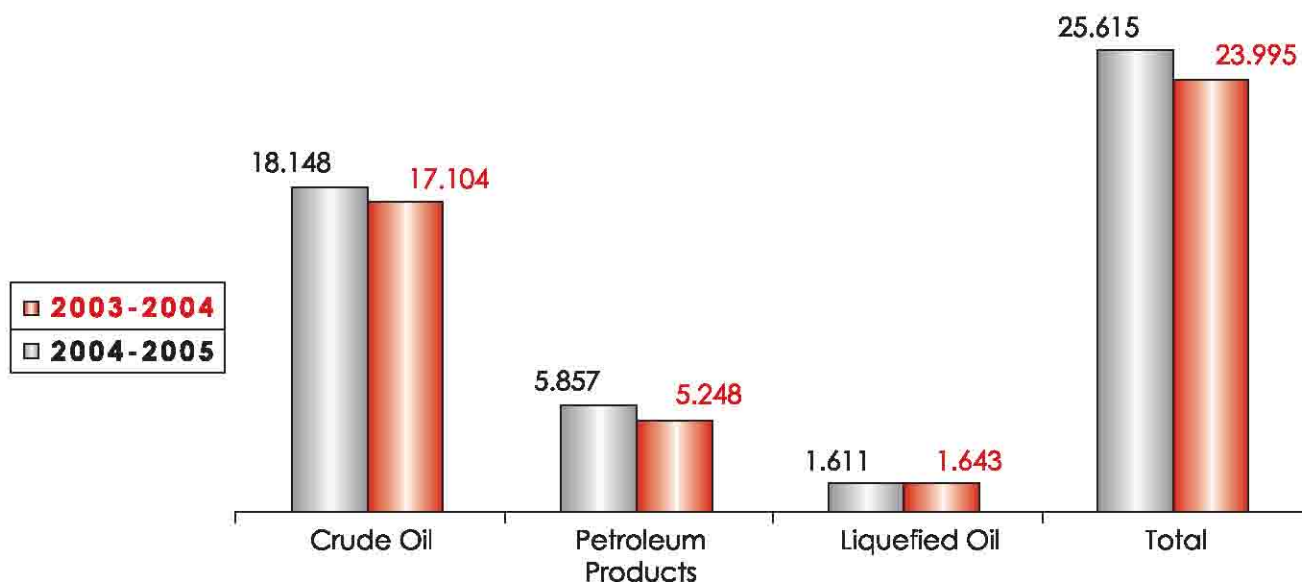
Type of Tanker	No. of tankers	Size of fleet/ 1000 Metric tons
Crude oil	8	2348.6
Petroleum products	11	592.6
Liquefied gas	5	242.2
Total	24	3182.4

KOTC coronated its efforts in the area of environment protection by the win of 8 tankers of "Green Award" certificate after fulfilling all conditions and necessary requirements for obtaining the certificate. This resulted in the obtainment by these tankers of rebates at ports enforcing "Green Award Scheme", including Rotterdam Port. KOTC is striving that the rest of its fleet will obtain such a certificate.

Furthermore, the Marine Agency Branch obtained Quality Certificate (ISO1996:14001) and (ISO2000:9001).

Local Activities

Transported Quantities – Million Tons



Within the measures taken for re-vamping KPC fleet and meeting the strategic needs for transporting and exporting the Kuwaiti oil, KOTC, a KPC subsidiary, signed contracts for building new double-body tankers: 2 crude oil supertankers, 2 liquefied petroleum gas tankers, 3 petroleum product tankers and 2 bunker fuel tankers. Taking delivery of the first tanker is expected in November 2005 and the last in March 2008. The tankers building cost amounted to around KD 180 million. Building another 6 tankers has been approved and the implementation procedures are in progress.

Marine Agency Branch

The Marine Agency Branch provided different kinds of maintenance, repair services, tanker supplies, spare parts, and transport for inspectors, sailors, pilot boat and administrative services to 1272 tankers that called at the Kuwaiti ports during the fiscal year.

Filling of liquefied Gas Cylinders

Gas cylinder distribution rate rose by 8.6% over that of the previous year. The number of 12-kg gas cylinders sold this year amounted to 10 million. Work is in progress for implementing a project for building a new plant for gas cylinder filling. A land has been allocated for building the plant. The project implementation is expected to commence in July 2006 and will last almost three years.

Aviation Fueling

During the fiscal year 2004/2005, KPC subsidiary, Kuwait Aircraft Fueling Company (KAFCO) provided 24716 aircraft with fuel. The quantities of fuel sold to customers amounted to 680.7 million liters. KAFCO activity is limited to providing aircraft fuel to all civil aircraft that call at Kuwait International Airport in their flights. It also provides services to Kuwaiti Air Force.

International Activities



Exploration and Production

KPC, represented in Kuwait Foreign Petroleum Exploration Company (KUFPEC) pursued realizing growth in its profits during the fiscal year. The company's net profits after tax deduction amounted to \$ 103.8 million, rising by 16% over those of the previous year. The rate of oil and gas production further rose by 6.35% to reach 44.5 thousand barrels of equivalent oil per day. It is recalled that KPC strategic plan aims at raising the company's production up to 100,000 barrels of equivalent oil per day by the year 2010. The volume of oil and gas reserves at the end of this fiscal year amounted to 248 million equivalent barrels.

KPC carried on boosting and increasing the volume of its current portfolio of assets distributed over 11 countries and comprises 36 concessions, including 12 productive fields spread in 7 countries, through feasibility studies in each of Iraq, Iran, Russia, Syria, Philippines, Kazakhstan and Gabon. Many positive indications emerged and will be developed during the year 2005.

Among the most important activities carried out during the fiscal year were the development of Mutineer - Exeter Field and another new project WA-335-B in Australia in addition to drilling a number of exploratory and assessment wells. Appendixes of contracts for selling the gas of Yacheng Field in China were signed to increase gas sales in the next 3 years and accomplish the safe haven platform according to the date set for mid - 2004 for the same field in China.

Refining and Marketing

The total volume of marketing sales rose from 319,000 to 328,000 barrels per day. This refers mostly to the noticeable growth in the sales of aircraft fuel, lubrication oils and special products (bitumen and liquefied gas). The fiscal year saw the sale of KPC operations in Thailand and United Kingdom to Petronas Company and Moltharst UK Ltd. respectively. However, the marketing profit margins suffered pressures during the fiscal year, owing to the steady increase of prices.

The International Diesel Service (IDS) succeeded in retaining its position in the market, despite the high competition in this area. This was through adopting a tough credit policy to avoid any future financial losses.

At the level of direct sales, the sales of gas oil for heating in Europe continued their downward trend as a result of replacing it with gas and electricity.

In March 2005, KPC signed, through Q8 Aviation, an agreement with (BP & Jet) under which it became a partner in the project of aircraft fueling at Glascau and Edinburgh airports.

In September 2004, KPC board merged the International Business Development Department with KPI, a KPC authorized department to concentrate on promoting foreign investments, especially in Europe. The merger aims at unifying the objectives, expertise and business under one umbrella to support and develop KPI in pursuing its operations and projects in international markets, especially in major and promising markets of Asian countries.

The international project development sector succeeded in negotiating with 3 major international oil companies, Shell, BP and Total, and a Memo of Understanding was signed with each company apart. These agreements aim at finding vital joint investment opportunities in the major Asian markets.

KPC opened channels of communication with the national and local oil companies of China, India, South Korea, and Japan for joint investment and assessment of strategy alliance with local partners in these countries.

International Marketing



Crude Oil and Petroleum Products

During the fiscal year Kuwait crude oil production rate (including the onshore and offshore Divided Zone) amounted to 2.48 million barrels per day, an increase by 38% compared to that of the previous year. Kuwait's OPEC-fixed quota reached 2.06 million barrels per day, i.e. in excess of the previous year rate by around 70,000 barrels per day. Simultaneously, Kuwait production capacity increased and reached 2.6 million barrels per day early in 2005.

Oil supplies continued in restraint this year. The strong growth of demand weakened the international commercial stockpile. Each of Saudi Arabia, UAE and Kuwait contributed in special to securing the additional supplies through actually using their reserve capacities to prevent a price rise with negative repercussion on world economy.

The rate of KPC crude oil exports amounted to around 1.6 million barrels per day, including Kuwait export crude. Despite the increase in the volume of export, KPC retained its share unchanged in different Asian markets. 78% of the exported crude oil headed for Asia and the remainder for the Atlantic markets. The USA market share of Kuwaiti crude oil reached 13% followed by Europe by 8% and Africa by 1%.

KPC sales of petroleum products rose slightly to reach 32.92 million metric tons after their previous year estimate of around 32.89 million metric tons as a result of the increase in liquefied petroleum gas sales. Medium product exports formed around 57% of the total exports, followed by naphtha by 23%. Solid product exports totaled 1.65 million metric tons, an increase by 0.12 million metric tons over those of the previous year.

As for product market, over 90% of products and liquefied petroleum gas exports went to Asia and the remainder to western markets. Sulfur and petroleum coal, i.e. over 40% of solid product sales, were exported to the Atlantic and African markets, whereas additional quantities are sold in China. There are plans for increasing the Chinese market share of sulfur over the upcoming years.

KPC liquefied gas exports rose in comparison with those of the previous year as a result of the rise in crude oil production. These exports reached 3.4 million metric tons, while they were estimated at around 3 million metric tons in the previous year. Bunker fuel sales resumed their normal level and amounted to around 1.2 million metric tons.

International Marketing Activity

KPC succeeded in signing a contract with the Malaysian Petronas Company for providing it with crude oil. It expanded the volume of contracts signed with Taiwan, Japan, India and Singapore. KPC also concluded with China spot contracts it hopes they will yield long-term annual contracts.

KPC further increased the volume of crude oil provision contract with the Korean S.K. Company and signed for the first time a 10-year agreement with it. KPC organized spot sales of Kuwait export crude and Khafji crude to ConocoPhillips in Singapore, which is likely to turn into a potential permanent outlet in the future.

The international marketing sector inaugurated KPC representative office in the Chinese capital of Beijing in February 2005. It is one of KPC vital offices since China is a promising oil market that enjoys increasing high demand, owing to its largeness being the second major energy consumer market worldwide. By inaugurating the representative office, KPC hopes to intensify contacts with the Chinese companies for building long-term relations of cooperation and acquiring long-term investment opportunities. KPC office covers China and Hong Kong.

Health, Safety and Environment (HSE)



KPC Commitment to reaching a pioneering role regionally and internationally in HSE performance is an indivisible part of its general policy and strategy. For this purpose, KPC runs its operations in accordance with the best effective practices in international oil industry in terms of the result and efficiency of its activities for ensuring the safety and health of employees, contractors, suppliers, customers and society and further ensuring environment protection wherever the locations of its operations with the aim of reducing the environmental cost of (KPC) operational activities and preserving the state natural resources for the next generations.

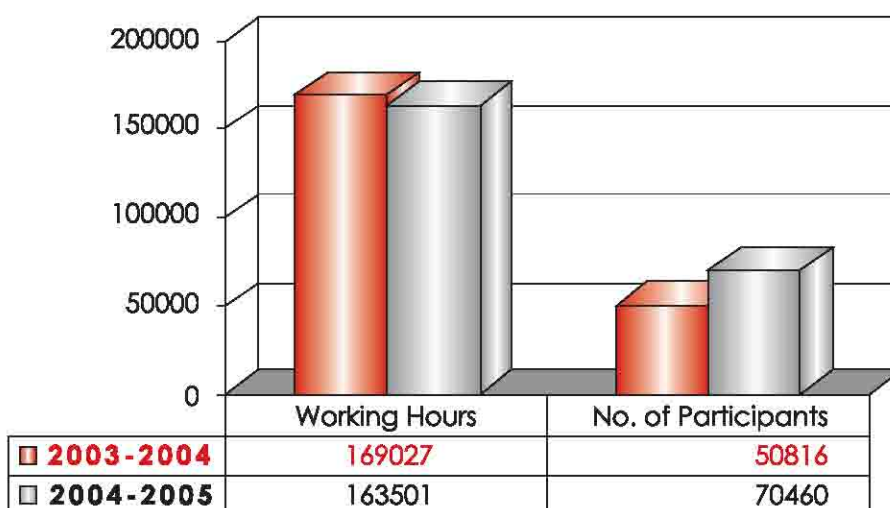
Main Achievements

- * Starting the implementation of a number of capital projects that aim at environment preservation and commitment to environmental standards set by the Environment Public Authority (EPA). The total cost of HSE capital projects amounted to around KD 744 million.
- * Completion of preparing and adopting a comprehensive HSE management system for KPC and its subsidiaries. This system includes policies, standards and tips that help KPC and its subsidiaries realize their strategic objective of reaching a pioneering regional level of HSE performance.
- * KPC signed a consultancy services contract with DuPont Company for implementing and activating HSE Management System (HSEMS) at the new oil complex. The project aims at acting according to HSEMS at the complex through preparing and drafting a set of systems, regulations and measures in this respect.
- * The Chief Executive Officer issued a decision pertinent to the "general policy of safe driving for KPC and its subsidiaries" in emphasis of the importance of safe driving to limit road injuries and casualties. Furthermore, a training course in defensive driving was prepared for all KPC employees and its implementation is in progress.
- * "Office Waste Recycling" program was launched for the first time at KPC Main Office.
- * Cooperation with a number of local and regional environmental committees.
- * Launching a number of publicity awareness campaigns at all levels of KPC and its subsidiaries relating to HSE system. The campaigns included distribution of booklets, wall posters and leaflets.
- * KPC and subsidiaries organized a number of HSE training courses and workshops that lasted over 160,000 man-hours and attended by over 70,000 employees. A number of mock trainings in different kinds of emergency cases were held at refineries, oil production fields, petrochemical units and other oil installations.
- * KPC organized "Oil Spill Exercise - 3rd level" at Mina Al-Ahmadi Port Refinery in cooperation with Civil Defense Department and in presence of the executives of civil defense departments in the GCC countries. An in-house training course where KPC and KNPC participated was held on the "Optimal Method for Oil Spill Management" in cooperation with a British Company for oil spill fighting (OSRL). Over 98 employees attended.

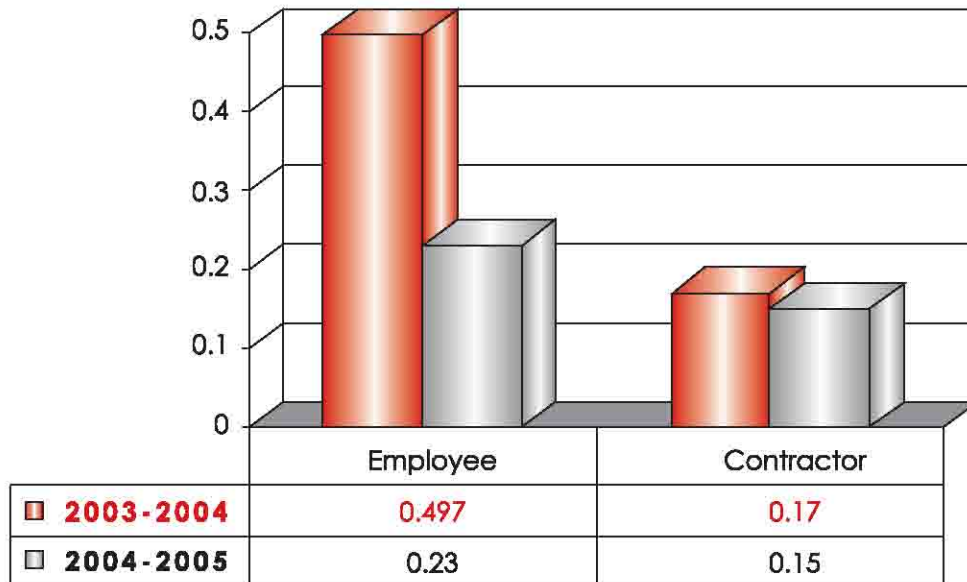
Health, Safety and Environment (HSE)

- * All KNPC refineries obtained the International Safety Certificate from the British Safety Organization.
- * In accident-free work, Shuaiba Refinery realized 2 million accident-free man-hours, Mina Al-Ahmadi Refinery 1 million and KNPC Project Department 9 million accident-free man-hours.
- * HSES implementation committee at Kuwait Oil Company has adopted 6 new additional measures.
- * Specialized international companies carried out a comprehensive and successful test of a number of KOTC tankers. Furthermore, "Quality & HSE Department" at KOTC tested a number of its tankers to ensure compliance with "Safety & Quality Management System".
- * The senior management of KPC and its subsidiaries carried out inspection and audit tours of all their installations and facilities in promotion of awareness and displaying the senior management's commitment to the safety of its employees and contractors.

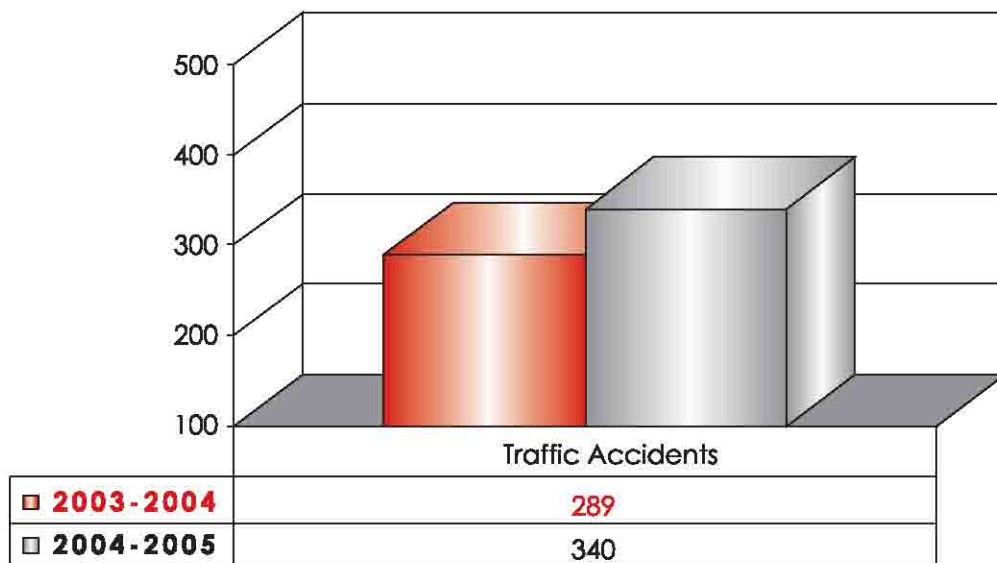
Comparison of the register of safety hours and training participation at KPC and subsidiaries



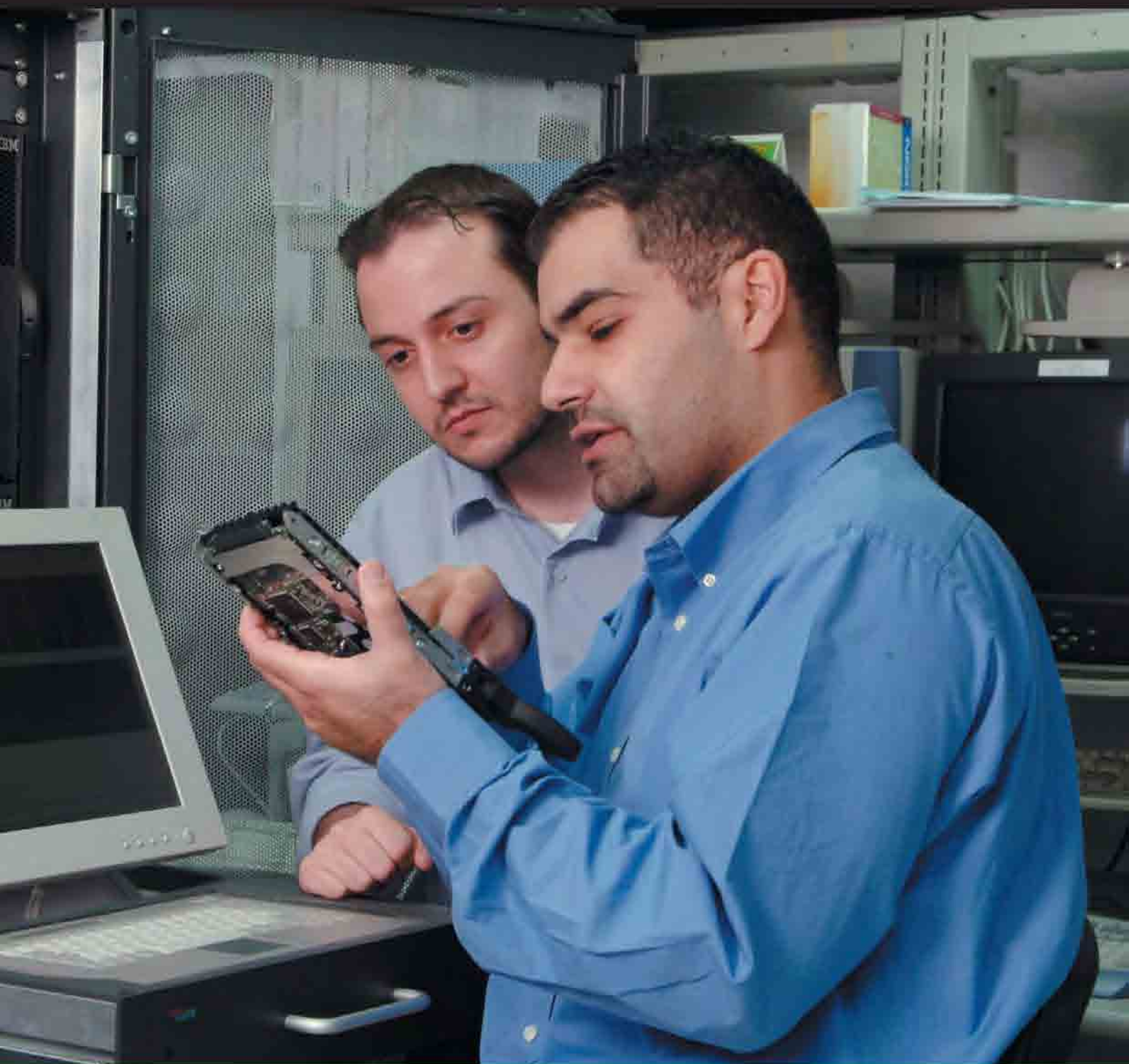
Rate of hours lost at KPC and subsidiaries



Comparison of traffic accident register at KPC and subsidiaries



Technology, Research and Development



KPC strategic guidelines up to the year 2020 stipulate the need for preparing a long-term plan to manage, apply modern technology and implement research and development projects in all activities of KPC and its subsidiaries for promoting their capabilities and potentials to counter technical and technological challenges of oil industry and to optimally avail of Kuwait hydrocarbon resources.

At the level of technology, KPC seeks to draw up work methods for the management and application of modern technologies in addition to developing the expertise and skills of the employees for using them and improving the methods of applying the state-of-the art and most appropriate technology according to the available techniques.

At the level of research and development, KPC seeks to lay down a plan and a long-term comprehensive work program for investment in this area and strengthening cooperation and coordination with research institutions and authorities in the State for exchanging information relating to oil industries.

A committee from KPC and its subsidiaries was formed in March 2002 for developing a unified strategy for technology, research and development. That included drafting a message and a vision besides the general strategy, future technological challenges, potentials and capabilities required for the management of technology and a plan to implement its strategy.

KPC message in the area of technology, research and development

KPC aims at recognizing the future technological challenges and identifying their suitable solutions besides technology management at high efficiency and a method that realizes the highest value. It also aims at applying the most appropriate technologies with taking into account the protection of environment, ensuring the safety and health of employees and work areas and further financing the project of research and development, promotion of skills and technical expertise.

KPC vision in the area of technology, research and development

Assumption of the lead among oil companies in the region through the application of the most suitable technologies and knowledge in KPC operations and realization of technical excellence in all operations besides the keenness to provide Kuwaiti employees with skills and high international technical expertise in addition to the ability to use and apply the state-of-the art and the most developed technologies.

Prominent achievements in the area of technology, research and development

- * Senior management's adoption of a long-term strategy for research and development.
- * Approval by the senior management of the financial budget and organizational structure for implementing the research and development plan.
- * Formation of the standing committee for implementing the research and development strategy.
- * Creation and addition of Research and Development Department within KPC organizational structure.
- * Formation of a team representing the State of Kuwait to follow-up and coordinate the efforts relating to research projects for producing clean oil by-products for OPEC countries.
- * Signing memorandums of understanding and a confidential information agreement in the area of research and development between KPC and each of Imperial College and Kuwait Institute for Scientific Research (KISR).
- * Identifying research projects that should be implemented during the year 2005/2006.
- * KPC board approval of allocating a budget for investment in the new energy technology.

Human Resources

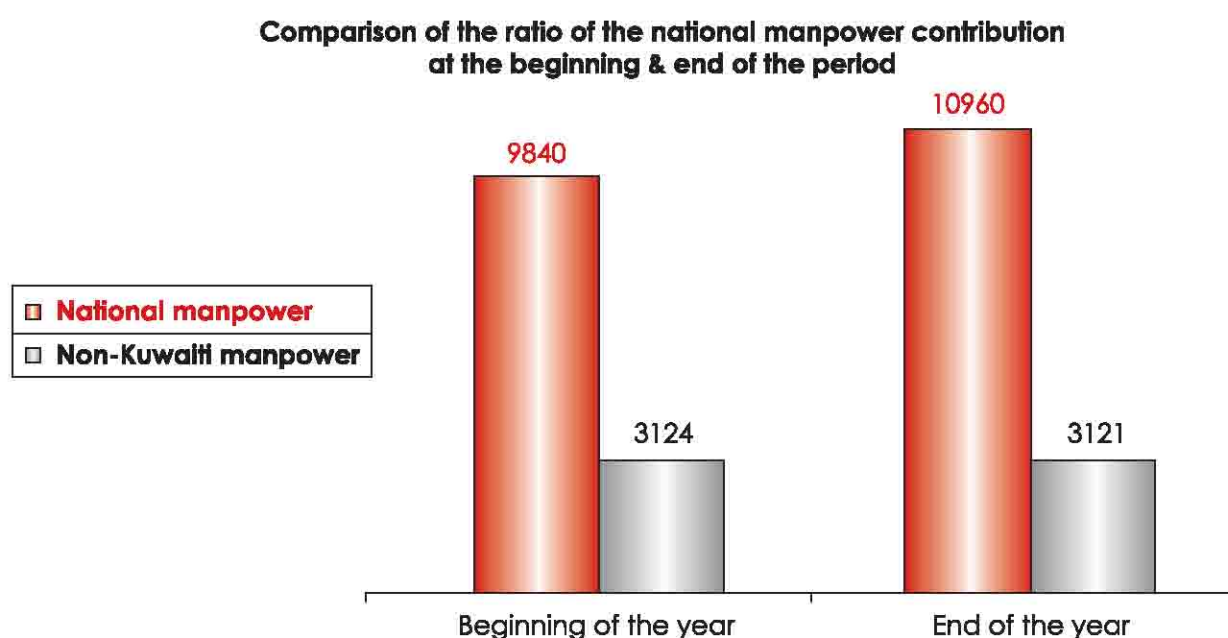


Employment

KPC pursued implementing its plans during the fiscal year for realizing its strategic objectives with in the process of development and investment in the human element out of its recognition of the importance of this aspect for attaining the goals of the oil sector and activating its developmental role played at the national level.

Operational and non-operational manpower at KPC and its subsidiaries totaled 14081 employees at the end of the year. The ratio of the national labor force contribution at the oil sector grew and reached at the beginning of the year 9840 Kuwaiti employees, by rate of 75.9% while it reached 10960 Kuwaiti employees at the end of the fiscal year, by rate of 77.8%. The year witnessed the recruitment of 1530 Kuwaitis of whom 206 were university graduates, 274 diploma holders, 1045 holders of general secondary education certificate and 5 holders of intermediate education certificate and below at a time 150 non-Kuwaiti employees were recruited.

As for non-Kuwaiti manpower, it reached 3121 employees at the end of the fiscal year, by rate of 22.2% of the total labor force, while at the beginning of the year it was 3124 non-Kuwaiti employees forming 24.1% of the total labor force at the oil sector standing at 12964 employees.



Training and career development sector performance acquired special importance for adopting the culture of integrated quality as a work method that governs administration systems and approaches and the implementation of all relevant activities and programs.

During the fiscal year, efforts continued for obtaining the two certificates of Environment Preservation Management Systems (ISO 14001:1996) and Occupational Health & Safety Preservation Management Systems (ISO 18001:1999).

At another level, the Petroleum Training Center was approved by the International Quality Management Organization (EFQM). Efforts are pursued for obtaining authorized international certificates for many programs implemented by the Center.

Human Resources

Most important achievements of human resources development

- * According to the decision by KPC board, a number of structural amendments were introduced. A sector for administrative affairs and a sector for training and career development chaired by a managing director each were created; other achievements included the establishment of Petroleum Services Company which will extend support services to KPC and subsidiaries such as security, safety, fire-fighting, health and cleaning services. Oil Development Company will assume the responsibilities of Kuwait Project, besides the transition of the duties and responsibilities of the international operations sector from KPC to KPI.
- * Accomplishment of the initial study for restructuring KPC Main Office and optimally utilizing the manpower.
- * Commencement of honoring KPC long-serving employees according to categories included in employee honoring system.

Most important projects started 2004/2005 and will continue through 2005/2006

- * Completing the preparation of the human resources draft strategy for the oil sector. It includes the vision, message, objectives and projects expected on the short, medium and long run.
- * Proposing various projects at level of the Main Office and the oil sector besides the work mechanism for implementing those projects that include: (Job succession, future leadership program, job rotation system, selection and appointment, standard instrument system).
- * Work is in progress for preparing integral studies to unify some oil sector systems relating to performance, regulations and incentives (promotions, annual increment, performance evaluation, incentive bonus, drafting a new system for specialized professional job scale).
- * Preparing a system for success-sharing reward and the individual reward, identifying performance measures and devising the standards for rewarding leader employees.

Training and Career Development

The fiscal year 2004/2005 witnessed a significant leap in the area of training and career development. The sector acquired independent representation to KPC board of directors. This was followed by restructuring the sector in line with the challenges created by the strategic guidelines drawn-up by the Education & Development Council for the oil sector. Plans that guarantee realization of the long-term ambitious strategic guidelines up to the year 2020 were devised for developing oil sector employees through reaching international levels of training and development. Systems and regulations that guarantee reaching these targets were laid down. Furthermore, top priority was given for intensive support of the national manpower, promoting its competitive abilities and upgrading it at all areas of work.

During the fiscal year, the oil sector implemented 3441 training programs for different specializations attended by 25412 employees from all job levels, recording the highest participation rate so far in one year. The participation of the national manpower was 81% of the above-mentioned total. The number of holders of the international professional (NVQ) certificate for process operators was 466 nationals. Measures for implementing "maintenance technician" program for KOC were taken with the aim of qualifying technicians for work in the area of engineering and maintenance. A team was formed to assume the follow-up of implementing a plan for Kuwaitization the contractors' labor force and realizing the targeted rate. Furthermore, over 1000 Kuwaiti nationals were admitted to training programs specialized in security and fire-fighting jobs.

The implementation of strategic guidelines and the standard level of performance.

- * Restructuring the training & development sector.
- * Creation and operation of the Assessment Center and creation of an integral information center at the oil sector.
- * Unification of policies, training and developmental measures at the oil sector and devising basics and standards for the assessment of local and international training authorities and unification of competency standards (CBS).
- * Creation of a system for leader development, support and development of E-learning systems and creation of a system to measure the training return.
- * Adopting specialized programs according to an authorized international system for certificates.

KPC efforts in program development and realization of international levels

- * A consultant was assigned for developing the basic programs special for the newly recruited employees of the oil sector, holders of university degree or below for familiarizing them with the sector's activities according to the most up-to-date systems at international oil companies.
- * Commencing the implementation of a program for administrative staff after the success realized by the program of process operators from KNPC and the implementation of the English language program according to (ALTA) system.
- * Commencing the implementation of a program to obtain international qualification certificates for technicians and administrative staff at the oil sector.
- * Adoption of scholarship and study leave system for KPC and subsidiaries employees for obtainment of bachelor and masters degrees.

Most important features of the training and development plan started 2004/2005 and will continue through 2005/2006

- * Continuing work on projects, performance development requirements and training & development services.
- * Preparing one-year training program on oil industry for university graduates.

Creating a training school for firemen.
- * Devising a scholarship system for new holders of general secondary education certificate for non-oil sector employees.
- * Restructuring the training and career development sector in line with the strategy approved by Education and Development Council.

Social and Media Services



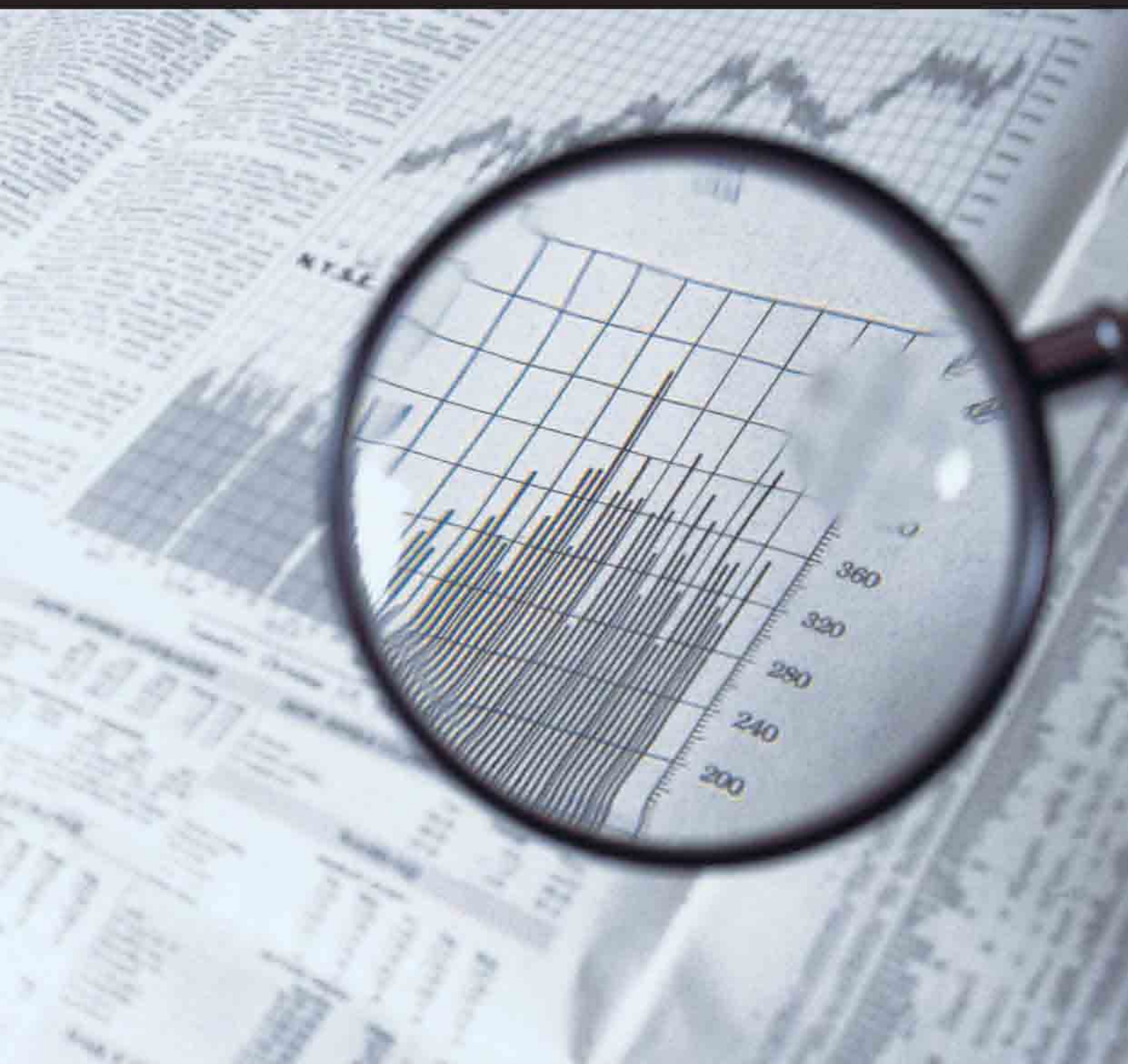
During the fiscal year 2004/2005, KPC organized a comprehensive media campaign for celebrating the Silver Jubilee on the occasion of its 25th anniversary since its establishment in 1980 for displaying its achievements and the pioneering role it undertakes at all levels. The most prominent feature of the campaign was the issuance of a memorial postal stamp on this occasion, organizing a well-attended program that included meetings with the sector's officials at different mass media levels and screening documentaries that record the different stages of the Kuwaiti oil sector, i.e. oil industry history, nationalization of oil in Kuwait, establishment of KPC and re-organizing different oil sector activities. A documentary on KPC and its subsidiaries was issued for the first time on the occasion of the Silver Jubilee in addition to a special edition of "KPC World" magazine. KPC held a special ceremony under the patronage of H.H. the Prime Minister and Chairman of the Supreme Petroleum Council attended by prominent senior State officials, incumbent and former oil sector leaders and a large number of invitees. Former oil ministers who successively chaired KPC were honored in recognition of their appreciated roles at the different stages experienced by KPC.

At the level of its role in exposing and activating the role of the oil sector in supporting social, cultural, media and national activities, KPC and its subsidiaries participated in many activities and extended support to all activities relevant to communication with society. Prominent among these activities were:

- * Donation to the Senior Home by buying medical beds and holding an open day in recognition of seniors on the occasion of "Family Day".
- * Sponsoring a dinner banquet at Hofburg Palace in Vienna on the sideline of OPEC international conference on 16th September 2004.
- * Supporting the "Stay Ambitious" project organized by the Kuwait National Student Association, University Branch for providing work opportunities during summer holidays.
- * Donation to Kuwait Disabled Care Society through presenting free fuel cards.
- * Sponsoring the dinner banquet of the annual conference of the International Masters Toast Organization that strives to develop oratory skills and communication with others.
- * Contribution to supporting the celebration for honoring the outstanding students at the Engineering and Petroleum Faculty, Kuwait University.
- * Sponsoring the 3rd International Professional Development Conference for Safety, Health and Environment and Loss Prevention.
- * Contribution to supporting and sponsoring of Arab Blind Forum and the 30th Arab Deaf Week.
- * Sponsoring the 2nd Media Forum held under the patronage of H.H. the Prime Minister.

KPC participated in many local, regional and international exhibitions and conferences, including West Asia Oil & Gas Exhibition in the Sultanate of Oman, Abu Dhabi 11th International Petroleum Exhibition and Conference, 15th International Oil and Gas Industry Exhibition and Conference in Singapore and Kuwait International Oil & Gas Exhibition and Conference.

Consolidated Balance Sheet





Kuwait Petroleum Corporation

Consolidated Balance Sheet

At 31 March 2005

Consolidated Balance Sheet At 31 March 2005

His Excellency, Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah

Chairman of the Supreme Council for Petroleum and
The Prime Minister

We have audited the accompanying consolidated balance sheet of Kuwait Petroleum Corporation and subsidiaries (the Group) as of 31 March, 2005 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

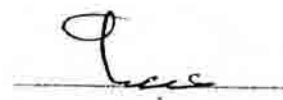
We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 March 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion, proper books of account have been kept by the Corporation and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements include the disclosures required by Law Decree No. 6 of 1980, that we obtained all the information and explanations that we required for the purpose of our audit, that an inventory was duly carried out, and that to the best of our knowledge and belief on violations of Law Decree No. 6 of 1980 have occurred during the year ended 31 March, 2005 that might have had a material effect on the business of the Group or on its financial position.



Waleed A. Al Osalmi
Licence No. 68 A
OF ERNST & YOUNG



Ali Al-Haswal
Licence No. 30 A
BDO BURGAN

3 July 2005
Kuwait

Consolidated Balance Sheet At 31 March 2005

Assets	Notes	2005 KD'000	2004 KD'000
Current assets			
Bank balances and cash	3	1,453,412	808,391
Trade receivables	4	1,561,969	1,105,410
Inventories	5	938,046	653,034
Other receivables and prepayments	6	349,234	422,210
Taxes receivable	7	9,060	8,213
Amount due from Ministry of Finance	8	32,284	-
Total current assets		4,344,005	2,997,258
Investments			
Securities	9	4,435,133	4,523,614
Unconsolidated subsidiary, associates and joint ventures		646,350	358,123
Total investments		5,081,483	4,881,737
Cost in excess of fair value of identifiable net assets acquired	10	68,740	70,713
Other non-current assets	11	743,969	617,134
Fixed assets	12	3,375,512	3,118,358
Total assets		13,613,709	11,685,200
Liabilities and equity			
Current liabilities			
Trade payables		368,227	369,419
Other credit balances	13	29,501	28,146
Other payables and accruals	14	468,662	365,012
Taxes payable	7	198,325	172,705
Amounts due to Ministry of Energy	15	1,172,014	725,792
Profit to be distributed	16	1,423,599	487,724
Total current liabilities		3,660,328	2,148,798
Non-current liabilities	17	471,223	394,846
Minority interests		220	226
Equity			
Authorised and paid-up capital		2,500,000	2,500,000
Statutory reserve	18	1,250,000	1,098,220
Capital reserve	19	232,945	232,945
General reserve	20	3,934,175	1,734,175
Reserve for replacement and renewal of fixed assets	21	1,483,691	1,483,691
Cumulative changes in fair values		9,805	2,073,967
Foreign currency translation reserve		71,322	18,332
Total equity		9,481,938	9,141,330
Total liabilities and equity		13,613,709	11,685,200

Suhail Bograis
Managing Director – Planning and Finance

Hani Abdulaziz Hussain
Deputy Chairman and Chief Executive Officer

The attached notes 49 to 66 form part of these consolidated financial statements

Consolidated Statement of Income At 31 March 2005

	Notes	2005 KD'000	2004 KD'000
Revenues			
Sales of crude oil, gas, refined products and petrochemicals		13,439,327	9,637,883
Engineering and other operations	22	264,242	225,269
		13,703,569	9,863,152
Cost of revenues			
Cost of sales of crude oil, gas, refined products and petrochemicals		(12,060,111)	(8,909,773)
Engineering and other operations		(151,096)	(117,010)
		(12,211,207)	(9,026,783)
Gross profit		1,492,362	836,369
General and administration expenses		(202,455)	(181,003)
Provision for inventory and doubtful debts		(377)	(16,809)
Depreciation and amortisation		(169,387)	(165,287)
Impairment losses of cost in excess of fair value of identifiable net assets acquired	10	(6,454)	-
Profit from operations		1,113,689	473,270
Interest income		20,812	11,850
Investment income	23	2,337,826	223,615
Share of profit from associates and joint ventures		123,865	52,653
Interest expense		(7,339)	(7,440)
Other income	24	238,309	60,822
Income tax expense		(51,685)	(20,014)
Directors' fees	25	(92)	(81)
Profit before minority interests	26	3,775,385	794,675
Minority interests		(6)	(1)
Profit for the year		3,775,379	794,674
Replacement and renewal of fixed assets		-	(185,000)
Profit available for distribution		3,775,379	609,674

The attached notes 49 to 66 form part of these consolidated financial statements

Consolidated Statement of Cash Flows At 31 March 2005

	Note	2005 KD'000	2004 KD'000
Operating activities			
Profit before minority interests		3,775,385	794,675
Adjustments for:			
Depreciation and amortisation		169,387	165,287
Impairment loss		6,454	-
Provision for employees' terminal benefits and pensions		21,548	32,981
(Gain) loss on disposal of fixed assets		(1,493)	3,429
Share of profit from unconsolidated subsidiaries, associates and joint ventures		(123,865)	(52,653)
Interest income		(20,812)	(11,850)
Interest expense		7,339	7,440
Income tax expense		51,685	20,014
Investment income		(2,337,826)	(223,615)
Operating profit before changes in operating assets and liabilities:		1,547,802	735,708
Increase in trade receivables		(536,955)	(11,185)
(Increase) decrease in inventories		(285,012)	42,255
Decrease in other receivables and prepayments		74,273	65,734
(Decrease) increase in trade payables		(1,192)	24,655
Increase (decrease) in other payables, accruals and other credit balances		141,103	(49,907)
Increase in amounts due to Ministry of Energy		589,184	168,700
Cash generated from operations		1,529,203	975,960
Taxes received		6,742	25,378
Net cash from operating activities		1,535,945	1,001,338
Investing activities			
Increase in deposits maturing after 3 months		(12,477)	(50,647)
Net (increase) decrease in securities		(2,452,150)	275,421
Net movement in subsidiaries, associates and joint ventures		(133,467)	64,873
Additions to cost in excess of fair value of net identifiable assets acquired		(1,690)	(10,410)
Increase in other non-current assets		(40,044)	(23,077)
Purchase of fixed assets		(628,133)	(644,037)
Proceeds from disposal of fixed assets		83,252	23,316
Interest received		20,078	11,850
Amounts due from Ministry of Finance		(32,284)	-
Proceeds from sale of securities and dividends received		2,789,407	79,182
Net cash used in investing activities		(407,508)	(273,529)
Financing activities			
Long-term loans, net		(33,557)	138,522
Increase in non-current liabilities		18,634	14,423
(Decrease) increase in minority interests		(12)	17
Interest paid		(7,339)	(7,440)
Profit distributed		(487,724)	(460,307)
Net cash used in financing activities		(509,998)	(314,785)
Net effect of foreign currency translation adjustments		14,105	(112,079)
Net increase in cash and cash equivalents		632,544	300,945
Cash and cash equivalents at beginning of the year		757,744	456,799
Cash and cash equivalents at end of the year	3	1,390,288	757,744
Short-term deposits maturing after 3 months	3	63,124	50,647
Bank balances and cash at end of the year	3	1,453,412	808,391

The attached notes 49 to 66 form part of these consolidated financial statements

Consolidated Statement of Changes In Equity At 31 March 2005

	Authorised and paid-up capital KD'000	Statutory reserve KD'000	Capital reserve KD'000	General reserve KD'000	Reserve for replacement and renewal of fixed assets KD'000	Cumulative changes in fair values KD'000	Foreign currency translation reserve KD'000	Profit available for distribution KD'000	Total KD'000
Balance at 31 March 2003	2,500,000	1,037,245	232,945	1,673,200	1,298,691	904,664	63,887	-	7,710,632
Profit for the year	-	-	-	-	-	-	-	794,674	794,674
Replacement and renewal of fixed assets	-	-	-	-	185,000	-	-	(185,000)	-
Transfers to statutory and general reserves	2,500,000	1,037,245	232,945	1,673,200	1,483,691	904,664	63,887	609,674	8,505,306
Net movement in cumulative changes in fair values	-	60,975	-	60,975	-	-	-	(121,950)	-
Net exchange differences	-	-	-	-	-	1,169,303	-	-	1,169,303
Profit to be distributed	-	-	-	-	-	-	(45,555)	-	(45,555)
Balance at 31 March 2004	2,500,000	1,098,220	232,945	1,734,175	1,483,691	2,073,967	18,332	-	9,141,330
Profit for the year	-	-	-	-	-	-	-	3,775,379	3,775,379
Transfers to statutory and general reserves	-	151,780	-	2,200,000	-	-	-	(2,351,780)	-
Net movement in cumulative changes in fair values	-	-	-	-	-	(2,064,162)	-	-	(2,064,162)
Net exchange differences	-	-	-	-	-	-	52,990	-	52,990
Profit to be distributed	-	-	-	-	-	-	-	(1,423,599)	(1,423,599)
Balance at 31 March 2005	2,500,000	1,250,000	232,945	3,934,175	1,483,691	9,805	71,322	-	9,481,938

The attached notes 49 to 66 form part of these consolidated financial statements

Notes to The Consolidated Financial Statements At 31 March 2005

1- Organisation and activities

The consolidated financial statements of Kuwait Petroleum Corporation and subsidiaries (the Group) for the year ended 31 March 2005 were authorised for issue in accordance with a resolution of the directors on 3 July 2005. These financial statements are subject to change upon approval of the Supreme Council of Petroleum. The Corporation is wholly-owned by the Government of the State of Kuwait. The Corporation was established by Law Decree No. 6 of 1980 which came into effect on 27 January 1980. The Group's principal activities include exploration, drilling, production, storage, refining, processing, transportation, distribution and marketing of crude oil, natural gas, chemical, petrochemical and associated products. The marketing of crude oil and petroleum products produced by subsidiaries in the State of Kuwait is undertaken by the Corporation. All of the Group's other activities, including the marketing of crude oil and petroleum products produced by subsidiaries outside the State of Kuwait, are carried out through its subsidiaries, associates and joint ventures. The principal subsidiaries, associates and joint ventures are set out in Note 32. The Group operates principally in the Middle East, Western Europe and the U.S.A.

Crude oil produced in the State of Kuwait becomes the property of the Government of the State of Kuwait, which reimburses the production costs of the producing subsidiary. The Corporation purchases crude oil and natural gas from the Government of the State of Kuwait in accordance with the terms of the applicable Decree issued on 17 January 1981.

The address of the Corporation's registered office is P.O. Box 26565, Safat 13126, State of Kuwait.

2- Significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with Law Decree No. 6 of 1980 and Standards issued or adopted by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

The consolidated financial statements are presented in thousands of Kuwaiti Dinars.

The significant accounting policies adopted are as follows:

Accounting convention

The consolidated financial statements are prepared under the historical cost convention, modified for the measurement at fair value of available for sale securities and derivative financial instruments.

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for the implementation of IFRS 3 "Business Combinations" and the early adoption of the revised version of IAS 2 "Inventories", as indicated in notes 10 and 24 respectively.

Accounting periods of group companies

The Group's financial year was from 1 April 2004 to 31 March 2005. The financial year of the Corporation's directly owned subsidiaries is the same as that of the Corporation with the exception of Kuwait Foreign Petroleum Exploration Company K.S.C., Kuwait Gulf Oil Company K.S.C. (Closed) and SFIC Holdings (Cayman), Inc., whose financial periods were from 1 January 2004 to 31 December 2004. Where such subsidiaries do not prepare financial statements drawn up to the same date as that of the Group, adjustments are made for the effects of any significant events or transactions which have occurred in the months following the year end of these subsidiaries.

Notes to The Consolidated Financial Statements At 31 March 2005

2- Significant accounting policies (Continued)

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and its principal subsidiaries. Significant intercompany balances, transactions and profits are eliminated on consolidation.

The financial statements of subsidiaries are prepared using accounting policies that are consistent with those applied by the Corporation. Adjustments are made to conform any material dissimilar accounting policies that may exist.

Minority interests principally represent the interest in subsidiaries of KPC Holding (Aruba) E.C. not held by the Corporation.

Cash and cash equivalents

Cash and cash equivalents for the purpose of preparing the consolidated statement of cash flows comprise cash, short-term bank deposits and highly liquid investments with a maturity date not exceeding 3 months from the date of acquisition.

Trade receivables

Trade receivables are stated at original invoice amount less provisions for amounts estimated to be non-collectable. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Inventories

(I) Crude oil and petroleum products

Crude oil inventory is valued at the lower of average cost and net realisable value at the year end. The cost of crude oil to the Corporation is determined by the Government of Kuwait in accordance with the Decree issued on 17 January 1981. The formula for establishing the cost of crude oil has been revised in accordance with a resolution by the Supreme Council for Petroleum effective 1 July 1997.

Liquefied petroleum gas and finished products are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method on an individual product basis.

Costs are those expenses incurred in bringing each product to its present location and condition. This includes cost of crude oil and natural gas supplied plus an allocation of processing costs and overheads to each product based on their relative market values.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

(II) Other

Spare parts, materials and supplies mainly used in operations are valued at cost, determined principally by the weighted average cost method, less allowance for any obsolete or slow-moving items.

Unconsolidated subsidiaries and associates

Investments in subsidiaries which are not consolidated and associates are accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity accounted amount and the recoverable amount. Subsidiaries are enterprises in which the Corporation generally holds greater than 50% of the voting power and over which it exercises controls. Associates are enterprises in which the Corporation generally holds 20% to 50% of the voting power and over which it exercises significant influence.

2- Significant accounting policies (Continued)

Available for sale securities

After initial recognition at cost, being the fair value of the consideration given including acquisition charges associated with the investment, investments which are classified as "securities" are remeasured at fair value. Unrealised gains and losses on remeasurement to fair value are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of or the investment is determined to be impaired, at which time the cumulative gain or loss is included in the statement of income for the year.

The fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

Cost in excess of fair value of identifiable net assets acquired

Cost in excess of fair value of identifiable net assets acquired is measured initially at cost.

Cost in excess of fair value of identifiable net assets acquired is capitalised and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not reversed.

Cost in excess of fair value of identifiable net assets acquired arising on acquisition before the implementation of IFRS 3 has been retained at the previous carrying values subject to being tested for impairment at that date.

At least annually, and where there is an indication that cost in excess of fair value of identifiable net assets acquired may be impaired, the recoverable amount is determined for the cash-generating unit to which the cost belongs. If the carrying amount is greater than the recoverable amount, an impairment loss is recognised.

Fixed assets

(i) Oil and gas properties

Oil and gas exploration and producing activities are accounted for using the "successful efforts" method of accounting, whereby costs of geological and geophysical operations, and exploratory drilling costs proven to be non-productive are expensed. Successful exploratory and developmental drilling costs are capitalised and amortised using the unit-of-production method for operations outside the State of Kuwait. Exploration and development drilling costs for operations in the State of Kuwait are capitalised and amortised on a straight-line basis over 10 years.

(ii) Other fixed assets

Other fixed assets are initially recorded at cost. Costs incurred for routine and cyclical maintenance and repairs and renewals are expensed when incurred. The costs of major inspection or overhaul costs are capitalised as a separate inherent component of an asset if they can be reliably estimated, future economic benefits are expected to flow and the Group has already depreciated an amount representing the inherent components that have been replaced or restored by the major inspection or overhaul. Major repairs and renewals of an asset or major components thereof, which improve the standard of performance or which extend the useful life of the asset beyond that originally assessed at the time of acquisition, are capitalised and depreciated over the useful life of the asset.

Notes to The Consolidated Financial Statements At 31 March 2005

2- Significant accounting policies (Continued)

Depreciation

Depreciation is provided on a straight-line basis on other fixed assets, other than freehold land and assets under construction. The rates of depreciation are based upon the following estimated useful lives:

* Tankage, pipelines and jetties	5 - 25 years
* Plant and machinery	3 - 33 years
* Oil and gas tankers	7 - 10 years
* Camps, buildings and facilities	4 - 40 years
* Vehicles, transportation equipment and other assets	3 - 20 years
* Construction and general equipment	5 years
* Well drilling and seismic surveys	10 years

Impairment and uncollectibility of assets

The carrying amounts of the Group's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in income whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of the Group's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rates inherent in the asset. Assets with a short duration are not discounted. The recoverable amount of marketable securities is their quoted market price. The recoverable amount of other assets is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in the statement of income. Impairment losses of cost in excess of fair value of identifiable net assets acquired are not realisable.

Trade payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Revenue recognition

Sales are recognised on the date title passes to the customer in accordance with the contract of sale. Other operating revenues are recognised as work is performed or over the terms of the related contracts.

Interest is recognised on the accrual basis.

Dividend income is recognised when the shareholders' right to receive payment is established.

Leases

Rentals paid under operating leases are expensed on a straight-line basis over the lease term, irrespective of the terms of payment.

2- Significant accounting policies (Continued)

Foreign currencies

In the accounts of individual Group companies, transactions denominated in foreign currencies are recorded in local reporting currencies at the exchange rates ruling at the date of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated into local reporting currencies at the year-end spot exchange rates. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction, is included as an exchange gain or loss in the statement of income of the relevant company. Non-monetary assets and liabilities denominated in foreign currency are translated using the exchange rates that existed when the values were determined.

For the purposes of preparation of the Group's consolidated financial statements, the results of individual Group companies are translated into Kuwaiti Dinars at the average rates of exchange prevailing during the year, and their balance sheets at the year-end spot exchange rates. Exchange differences arising are accumulated as a separate component of equity (foreign currency translation reserve) until the disposal of the subsidiary or associate.

Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets and liabilities of the foreign entity and are translated at the year end spot exchange rates.

Financial instruments

Financial instruments include bank balances and cash, trade receivables, securities, trade payables and certain other assets and liabilities. Off-balance sheet financial instruments include forward foreign exchange purchase contracts which are entered into in order to fix the exchange rate at which purchases will be settled and are disclosed at contracted rates, and other derivative products. Derivative products are financial contracts between two parties where payment is dependent upon movements in price in one or more underlying financial instruments, reference rates or index.

Fair values of on-balance sheet financial instruments are based on quoted prices for marketable instruments, or estimated fair values, calculated using methods such as net present values of future cash flows. Fair values of off-balance sheet financial instruments are based on the unrealised gain or loss from marking to market the derivatives using prevailing market rates or internal pricing models.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the corporation commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Taxes on income

Certain of the Corporation's subsidiaries are subject to taxes on income in various foreign countries of operation. Provision is made for current income taxes in the subsidiaries' financial statements based on the tax laws and the rates of the countries in which operations were conducted during the year. Provision for deferred income taxes reflects the net tax effects of timing differences between the carrying amounts of assets and liabilities used for financial and income tax reporting purposes, which are expected to reverse in the foreseeable future.

Notes to The Consolidated Financial Statements At 31 March 2005

2- Significant accounting policies (Continued)

Derivatives

Derivative products principally include forward foreign exchange contracts, futures, options and swaps.

Derivatives are stated at fair value. The fair value of a derivative is equivalent of the unrealised gain or loss from marking to market using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other receivables and derivatives with negative market values (unrealised losses) are included in other payables in the balance sheet. The resultant gains and losses from derivatives held for trading purpose are included in the statement of income.

The Group also enters into sales and purchase contracts as part of its international operations. Where these contracts qualify as a derivative or include an embedded derivative as defined by IAS39, they are stated at fair value. Fair value is assessed by applying prevailing market prices directly to the contract or embedded derivative, where possible, or by identifying separate financial instruments which have the same terms and are readily traded in the relevant markets.

Provisions

Provisions are recognised when an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation, are both probable and able to be reliably measured.

3- Bank balances and cash

	2005 KD'000	2004 KD'000
Cash and current accounts at banks	98,605	38,556
Short-term bank deposits and highly liquid investments maturing within 3 months	1,291,683	719,188
Cash and cash equivalents	1,390,288	757,744
Short-term bank deposits maturing after 3 months	63,124	50,647
	1,453,412	808,391

Short-term bank deposits are mainly denominated in Kuwaiti Dinars, Euros and US Dollars. These deposits carry annual interest rates between 0.25% to 4.75% (2004: 0.5% to 2.75%) and mature within six months from the balance sheet date. These balances are placed with high credit quality financial institutions.

Bank balances and cash also include:

US \$ 10.6 million and £ 1.4 million (KD 3.9 million) recovered from former employees against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities [(2004: US \$ 10.4 million and £ 1.4 million (KD 3.8 million))]. These amounts, which include accumulated interest, can only be utilised in accordance with the outcome of the litigation (refer note 31).

US \$ 67 million, £ 7.8 million, EUR 1.7 million and CHF 4.1 million (KD 25.6 million) recovered from former employees against whom the subsidiary company has initiated legal proceedings for financial irregularities [2004: US \$ 66 million, £6.1 million, EUR 1.6 million and CHF 4.1 million (KD 24.3 million)].

The total corresponding amount of KD 29.5 million (2004: KD 28.1 million) is reported as other credit balances (Note 13).

4- Trade receivables

The Corporation and one of its major subsidiaries, comprising 75% (2004: 79%) of the consolidated total trade receivables, deal mainly with major state owned and international oil companies. Another major subsidiary operating mainly in Europe and accounting for approximately 24% (2004: 20%) of the consolidated total trade receivables deals with a large number of corporate customers in that region. The Group's 12 largest customers account for 43% of outstanding trade receivables at 31 March 2005 (2004: 50%).

Trade receivables are denominated predominantly in US Dollars and Kuwaiti dinars.

Trade receivables include KD 128 million (31 March 2004: KD 119 million), which represents the short-term portion of amounts due from Ministry of Energy (Note 11).

The above balances are stated net of a provision of KD 95 million (2004: KD 95 million). A significant portion of these receivables has been outstanding for a number of years, as payment of these balances is subject to formalities, including the approval of the Ministry of Energy expenditure budget. It has been resolved that the Ministry of Finance and Ministry of Energy will undertake to settle the amounts due upon the completion of these formalities.

5- Inventories

	2005 KD'000	2004 KD'000
Crude oil	234,952	101,140
Liquefied petroleum gas	823	691
Refined petroleum products	506,487	354,625
Finished petrochemical products	3,507	5,286
Spare parts, materials and supplies	192,277	191,292
	<u>938,046</u>	<u>653,034</u>

6- Other receivables and prepayments

	2005 KD'000	2004 KD'000
Marine sub-charter and other receivables	78,186	69,721
Insurance, local tax and other claims	26,124	33,728
Prepaid expenses	45,919	38,229
Receivable from exchange and concession partners	12,400	29,132
Advances to contractors	15,503	24,404
Refundable deposits	125	18,649
Employee receivables	6,175	1,357
Other	164,802	206,990
	<u>349,234</u>	<u>422,210</u>

7- Taxes receivable/payable

Taxes receivable mainly comprise corporate income tax and related refund claims recoverable by one of the Group's foreign subsidiaries. Taxes payable are predominantly on account of VAT and similar tax liabilities payable by another foreign subsidiary.

Notes to The Consolidated Financial Statements At 31 March 2005

8- Amount due from ministry of finance

This represents an amount paid to settle a claim against one of the subsidiaries, charged to the Ministry of Finance.

9- Securities

	2005 KD'000	2004 KD'000
Managed portfolios	4,397,847	2,052,124
Other	37,286	2,471,490
	<u>4,435,133</u>	<u>4,523,614</u>

Securities are denominated predominantly in US Dollars and Euros and represent investments in high credit quality bonds and equities quoted on international stock markets.

10 Cost in excess of fair value of identifiable net assets acquired

	2005 KD'000	2004 KD'000
Net book value at beginning of the year	70,713	63,524
Additions during the year, net	1,690	10,209
Amortisation charged during the year	-	(9,426)
Impairment losses for the year	(6,454)	-
Currency translation effects	2,791	6,406
	<u>68,740</u>	<u>70,713</u>
Net book value at end of the year		

On 1 April 2004, the group was required to implement prospectively IFRS 3 "Business Combinations" and as a result, the excess cost arising on acquisition is no longer amortised but restated for impairment at least annually. The net effect of implementing this standard on the year ended 31 March 2005 was a reduction in the charge against cost in excess of fair value of identifiable net assets acquired of KD 7 million.

11- Other non-current assets

	2005 KD'000	2004 KD'000
Long term portion of trade receivables	623,376	542,980
Deferred expenses	29,416	21,499
Deferred tax asset	9,276	4,653
Intangible assets	52,901	33,972
Other	29,000	14,030
	743,969	617,134

Included in trade receivables and non-current trade receivables are KD 128 million (2004: KD 119 million) and KD 623 million (2004: KD 543 million) respectively due from the Ministry of Energy which do not carry any interest or fixed or determinable repayment dates.

Approximately KD 12.9 million (2004: KD 13.7 million) of deferred expenses represents catalysts used in the refining process which are amortised on a straight line basis over their estimated useful lives.

Notes to The Consolidated Financial Statements At 31 March 2005

12- FIXED ASSETS

	Oil and gas properties KD'000	Tankage, pipelines and jetties KD'000	Plant and machinery KD'000	Oil and gas tanks KD'000	Camps, buildings and facilities KD'000	Vehicles, transportation equipment and other assets KD'000	Construction and general equipment KD'000	Well drilling seismic surveys KD'000	Assets under construction KD'000	Total KD'000
Balance at 1 April 2004, net of accumulated depreciation	266,351	366,823	756,526	75,168	344,348	47,717	5,991	315,520	939,914	3,118,358
Additions	68,591	71,104	131,034	3,002	14,969	12,087	40	134,809	215,960	651,596
Disposals	(14,894)	(4,151)	(8,630)	-	(41,913)	(1,364)	(20)	-	(12,280)	(83,252)
Transfers	12,653	61,289	211,397	-	(3,829)	7,282	2,151	-	(314,406)	(23,463)
Currency translation effects	166	2,266	14,515	-	8,537	409	254	-	3,499	29,646
Depreciation for the year	(27,967)	(42,421)	(130,605)	(11,723)	(26,620)	(21,386)	(1,450)	(57,135)	-	(319,307)
Impairment reversal	1,934	-	-	-	-	-	-	-	-	1,934
At 31 March 2005	306,834	454,910	974,237	66,447	295,492	44,745	6,966	393,194	832,687	3,375,512
Fixed assets										
At cost	598,494	1,432,704	2,831,414	276,380	651,977	239,719	30,161	973,142	832,687	7,866,678
Accumulated depreciation	(291,660)	(977,794)	(1,857,177)	(209,933)	(356,485)	(194,974)	(23,195)	(579,948)	-	(4,491,166)
Net carrying amount at 31 March 2005	306,834	454,910	974,237	66,447	295,492	44,745	6,966	393,194	832,687	3,375,512

The depreciation charged in the consolidated statement of income is reduced by KD 143 million (2004: KD 129.7 million) being the amount charged to the Ministry of Energy in respect of the operations of local wholly owned subsidiaries, Kuwait Oil Company K.S.C. and Kuwait Gulf Oil Company K.S.C.

Notes to The Consolidated Financial Statements At 31 March 2005

13- Other credit balances

Other credit balances represent KD 29.5 million (2004: KD 28.1 million) relating to funds recovered from former employees against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities, together with accumulated interest (refer to Note 31). KD 3.9 million (2004: KD 3.8 million) of this balance can only be utilised in accordance with the outcome of the litigation.

14- Other payables and accruals

	2005 KD'000	2004 KD'000
Short-term bank loans	54,149	90,247
Provision for annual leave and accrued compensation	36,236	29,611
Payable to contractors	115,673	106,989
Accruals	39,553	28,770
Sundry payables	142,221	76,472
Payable to exchange partners	23,554	17,642
Marine sub-charter and other marine payables	57,276	15,281
	468,662	365,012

Short-term bank loans are unsecured, are denominated in Euros, or in the currency of the country in which the borrowing occurs, and bear interest at prevailing market rates.

15- Amounts due to ministry of energy

Amounts due to the Ministry of Energy represent the net amounts payable for purchases of crude oil and natural gas and for certain activities performed by the Corporation and its subsidiaries on behalf of the Ministry of Energy. These activities primarily relate to the exploration for and production of crude oil and natural gas in the State of Kuwait and the local marketing (within the State of Kuwait) of refined products and liquefied petroleum gas. The costs of the wholly owned subsidiaries, Kuwait Oil Company K.S.C. and Kuwait Gulf Oil Company K.S.C., are charged to this account.

16- Profit to be distributed

	2005 KD'000	2004 KD'000
Balance at beginning of the year	487,724	460,307
Profit distributed during the year	(487,724)	(460,307)
Profit to be distributed	1,423,599	487,724
Balance at end of the year	1,423,599	487,724

In accordance with Article 12 of Law Decree No. 6 of 1980, the profit for the year, after transfer to reserves, is payable to the Government of the State of Kuwait.

Notes to The Consolidated Financial Statements At 31 March 2005

17- Non-Current liabilities

	2005 KD'000	2004 KD'000
Employees' terminal benefits and pensions	200,899	179,351
Long-term loans	141,485	138,944
Deferred income taxes	59,453	25,799
Provisions	36,808	20,975
Other	32,578	29,777
	471,223	394,846

The long-term loans represent loans to KPC Holdings (Aruba) A.E.C. and Kuwait Gulf Oil Company K.S.C. KPC Holdings (Aruba) A.E.C. long-term loans are denominated in Euros and bear various interest rates, however the majority of the loan balance bears interest at a rate of either EURIBOR plus 0.75% or EURIBOR plus 0.4%. Certain of the loan balances include covenants relating to the financial position of a subsidiary of KPC Holdings (Aruba) A.E.C. The long-term loan to Kuwait Gulf Oil Company K.S.C. represents a draw down under a facility amounting to US \$ 750 million provided to fund capital expenditures of Al Khafji Joint Operations during the years 2003 to 2007 and is repayable in five equal annual instalments starting from 16 December 2005 to 16 December 2009. This loan carries interest at 6 month LIBOR and a margin.

Provisions represent present obligations of one of the Corporation's subsidiaries in Europe relating mainly to environmental provisions and business restructuring in respect of the relocation of certain group management and head office functions from London to Kuwait, together with restructuring of operations in Belgium and Denmark.

18- Statutory reserve

In accordance with Article 12 of Law Decree No. 6 of 1980, 10% of the profit is to be transferred to statutory reserve; such transfer will be discontinued when the reserve equals 50% of the authorised and paid-up capital. Accordingly the transfer to statutory reserve, which is 4% of the profit for the year, is that amount required to raise the reserve to 50% of authorised and paid up capital.

19- Capital reserve

The capital reserve mainly represents the difference between the Corporation's cost of acquisition of its original subsidiaries, which were transferred by the Government of the State of Kuwait, and their net asset values at 31 December 1979.

20- General reserve

In accordance with Article 12 of Law Decree No. 6 of 1980, 10% of the profit is to be transferred to the general reserve, the percentage of which may be changed in accordance with a resolution of the Supreme Council of Petroleum. An amount of KD 2,200 million equivalent to 58.28% of the profit has been transferred to the general reserve.

21- Reserve for replacement and renewal of fixed assets

Article 10 of Law Decree No. 6 of 1980 states that the Corporation may provide part from its profits to meet the costs of replacement and renewal of the Corporation's and its subsidiaries' fixed assets, after approval of the Supreme Council for Petroleum. The reserve is based on the difference between depreciation, calculated on the historical cost of the fixed assets of the Corporation and its Kuwaiti subsidiaries, and depreciation calculated on the replacement cost of assets using their insured (generally replacement) values.

The Board of Directors has proposed no transfer to the reserve as of 31 March 2005 (2004: KD 185 million), which is subject to approval of the Supreme Council of Petroleum.

22- Revenues from engineering and other operations

	2005 KD'000	2004 KD'000
Engineering and construction	4,120	3,954
Marine operations	33,799	9,292
Merchandise and other services	226,323	212,023
	<u>264,242</u>	<u>225,269</u>

23- Investment income

Included in investment income is KD 2,190 million relating to the realised gain on disposal of the Corporation's shareholding in Aventis S.A. and Sanofi Aventis.

24- Other income

	2005 KD'000	2004 KD'000
Gain (loss) on disposal of fixed assets		
Recovery of financial cost	1,493	(3,429)
Foreign currency exchange gain (loss)	61,423	49,248
Miscellaneous income	57,528	(7,291)
UN compensation claim	117,127	13,136
	738	9,158
	<u>238,309</u>	<u>60,822</u>

Included within miscellaneous income is approximately KD 53 million which represents the effect, in one of the Corporation's subsidiaries, of the early adoption of the revised International Accounting Standard 2 "Inventories" (IAS 2). The subsidiary previously priced crude oil and other products inventory using the "Last In First Out" method, which is not permitted under the revised IAS 2. The effect of this change in accounting policy has been included in the determination of the net profit for the year in the Corporation's financial statements in accordance with the allowed alternative treatment in IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". Had the change in accounting policy been accounted for retrospectively in accordance with the benchmark treatment in IAS 8, profit for the year would have decreased by the same amount. This change in accounting policy caused the profit for the year of the subsidiary to increase by KD 60 million.

Additionally, miscellaneous income includes gain on sale of Lube Oil Plant ("Division") of KD 19 million.

Notes to The Consolidated Financial Statements At 31 March 2005

25- Directors' fees

The directors' fees are subject to approval of the Supreme Council for Petroleum.

Profit before minority interests

26- The profit before minority interests is stated after charging:

	2005 KD'000	2004 KD'000
Staff costs	489.069	453.089

At 31 March 2005 the Group had 18,571 employees (2004: 20,536 employees).

27- Un Compensation claim

In respect of losses suffered as a result of the Iraqi invasion and occupation of Kuwait in 1990, the Governing Council of the United Nations Claims Commission has approved an amount of US \$ 18,864 million to the Group and the Government of the State of Kuwait for payment as and when funds become available. During the year, a further amount of KD 0.7 million (2004: KD 20.8 million) was received in part settlement. Of this amount, KD 0.7 million (2004: KD 9 million) is in respect of amounts due to the Group (Note 24).

28- Fair values and financial instruments

In the normal course of business, the Group uses primary financial instruments such as cash and deposits, securities, short-term borrowings, receivables and payables. One of the subsidiaries in the Group uses derivative financial instruments for managing risks arising from changes in crude oil and petroleum product prices, exchange rates and interest rates. The subsidiary does not use derivatives for speculative purposes.

The carrying amounts of financial instruments approximate their fair values due to the short-term maturities and the nature of such instruments.

Non-current trade receivables totalling KD 623 million (2004: KD 543 million) are due from the Ministry of Energy (Note 11). Since this balance does not carry a fixed or determinable date of future payment, it is not possible to estimate with sufficient reliability its fair value. However, since the balance does not carry interest, fair value is below carrying value.

All foreign currency derivative instruments are marked to market at the end of each month. At year end the gross contract amounts of such contracts, none of which extended beyond 12 months, were as follows:

	2005 USD'000	2004 USD'000	2005 KD'000	2004 KD'000
Foreign exchange contracts	529.875	618.818	156.154	182.610

The majority of the balances at 31 March 2005 relating to forward exchange contracts were in US dollars, with minimal amounts in Danish Krona, Pounds Sterling, Thai Baht and Swedish Kroner.

29- Risk management

Information on the financial risks of the Group's financial instruments is set out below:

Interest rate risk

The Group is exposed to interest rate risk on its interest bearing assets (being mainly bank deposits and bonds). The Group manages the interest rate risk by placing its deposits on a short-term basis with banks.

Credit risk

The Group is exposed to credit risk in respect of losses that would have to be recognised if counterparties fail to perform as contracted. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Credit risk with respect to trade receivables is limited due to the Group dealing mainly with state owned and major international oil companies, the use of letter of credit arrangements and the active monitoring of outstanding receivables.

The Group controls credit risk in relation to its securities and bank balances by rigorous screening and credit assessment of all proposed dealing counterparties and placing limits on the total financial exposure with each institution.

Liquidity risk

The Group has limited its liquidity risk by maintaining its managed portfolios of securities in quoted marketable bonds and equities. The Group's terms of sales are governed by contracts with customers but generally require payment within 30 days of the date of sale. Amounts due to the Ministry of Energy are normally settled within 30 days of the date of purchase.

Currency risk

The Group does not generally use derivative forward foreign exchange contracts to hedge against foreign exchange currency risk, except for one of its overseas subsidiaries. The overseas subsidiary continuously seeks to identify and measure all risks arising from movements in foreign exchange rates. Such risks are routinely hedged using a variety of methods, including derivatives such as forward currency contracts and options.

Other than securities and loans, which are denominated in foreign currencies, mainly Euros, the Group is not exposed to significant currency risk.

As the Kuwaiti Dinar movements approximate that of the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates, equity prices and oil prices. The Group sets limits on the value of risk that may be accepted.

The Group considers that volatility in oil prices is a regular part of its business. To cover exceptional circumstances, one of the Group's subsidiaries has a hydrocarbon risk management policy under which it may make use of derivative instruments to hedge oil price related risks.

Notes to The Consolidated Financial Statements At 31 March 2005

30- Expenditure commitments

a) Operating lease commitments

The minimum annual rental commitments under operating leases are as follows:

	2005 KD'000	2004 KD'000
Future minimum lease payments:		
Within 1 year	22,608	21,430
Between 1 and 5 years	66,124	52,787
After 5 years	41,594	43,429
	130,326	117,646

Aggregate operating lease expenditure contracted for at the balance sheet date

b) Capital expenditure commitments

Estimated capital expenditure contracted for by the Group at the balance sheet date but not provided for amounted to KD 587 million (2004: KD 549 million).

31- Contingencies

Contingent liabilities

Pursuant to the acquisition by a subsidiary of an interest in a joint venture in Australia, encompassing production from the Harriet field and various exploration permits, the subsidiary has entered into three deeds of cross charges in favour of each of the other participants for the purpose of securing the subsidiary's obligations under the joint venture agreement. The cross charges comprise a prior ranking charge over the subsidiary's interest in the joint venture to a limit of Australian \$ 250 million (KD 56 million).

Contingent assets

(a) On 2 August 1990, Iraq invaded the State of Kuwait and disrupted the Corporation's Kuwait operations including those of its subsidiaries and affiliates. Wells, facilities and equipment were damaged or destroyed and inventories and other assets were stolen. The related carrying amounts of assets damaged or stolen and other expenses related to the invasion have been reflected as extraordinary items in the consolidated statement of income of prior years.

Under the terms of the Amiri decree issued on 17 January 1981, costs relating to crude oil production are to be recovered from the amounts due to the Government through the Ministry of Energy. Accordingly, all losses incurred by Kuwait Oil Company K.S.C. relating to wells, facilities and equipment damaged or destroyed and parts, supplies and other assets stolen during the Iraqi invasion normally utilised in crude oil production are borne by the Ministry of Energy.

The Corporation and certain of its local subsidiaries are pursuing claims against Iraq for the recovery of losses suffered during the Iraqi invasion. Amounts received during the year have been disclosed in other income (Note 24).

31- Contingencies (Continued)

Civil proceedings were brought in London in 1994 against certain former officers and employees of that subsidiary in connection with certain other financial irregularities and a court decision awarded US \$ 135 million in favour of that subsidiary. Interest is running on these sums from the date of judgment (15 December 1998). The defendants were unsuccessful in their appeal to the Court of Appeal and have also lost their application to appeal to the House of Lords. Enforcement of the English award is in progress. To date, and as a result of another action in a Swiss court, US \$ 67 million, £ 7.8 million, EUR 1.7 million and CHF 4.1 million (approximately KD 25.6 million) of funds belonging to certain defendants have been recovered by the subsidiary company (Note 3). The subsidiary company's lawyers have advised that a considered decision would have to be taken, after study, on how these funds are to be allocated between the concerned parties and, until there is such an allocation, no distribution of funds nor recognition of income should be made. These amounts, together with interest earned, have been classified as other credit balances (Note 13).

Other local civil legal cases have also been raised and are in progress in Kuwait to recover funds from other parties relating to the above financial irregularities.

32- Subsidiaries, associates and joint ventures

a) Principal directly and wholly-owned subsidiaries registered in the State of Kuwait:

<i>Name of company</i>	<i>Principal activities</i>
* Kuwait Oil Company K.S.C.	Exploration for and production of crude oil and natural gas in the State of Kuwait
* Kuwait National Petroleum Company K.S.C.	Refining, LPG manufacturing, and local marketing of refined products
* Kuwait Oil Tanker Company S.A.K.	Operation of a fleet of crude oil tankers and liquefied petroleum gas and oil product carriers
* Petrochemical Industries Company K.S.C.	Production of petrochemical products and their distribution and marketing
* Kuwait Foreign Petroleum Exploration Company K.S.C.	Exploration for and development of oil and gas outside the State of Kuwait
* Kuwait Santa Fe for Engineering and Petroleum Projects Company K.S.C.	Provision of design, engineering and related services to the petroleum industry
* Kuwait Aviation Fuelling Company K.S.C.	Supply of aviation fuel
* Kuwait Gulf Oil Company K.S.C. (Closed)	Exploration for and production of crude oil and natural gas

Notes to The Consolidated Financial Statements At 31 March 2005

32- Subsidiaries, associates and joint ventures (Continued)

b) Principal directly and wholly-owned subsidiaries registered outside the State of Kuwait:

Name of company	Country of Incorporation	Principal activities
* SFIC Holdings (Cayman), Inc.	Cayman Islands	International contract drilling
* KPC Holdings (Aruba) AEC	Europe	Refining, and marketing of refined products
* Petrochemical Resources Holding N.V.	Netherlands	Investment in other companies and financing activities

c) Principal associates

Name of Company	Country of Incorporation	Proportion held	Principal activities
* Kuwait Drilling Company K.S.C.	Kuwait	49%	Contract drilling
* Equate Petrochemical Company K.S.C.	Kuwait	42.5%	Petrochemicals
* Gulf Petrochemical Industries Company B.S.C.	Bahrain	33%	Petrochemicals
* Global Santa Fe Corporation	United States	19%	Contract drilling and related services
* First Fuel Marketing Company K.S.C. Kuwait	Kuwait	24%	Fuel marketing

d) Interest in joint ventures

Name of Company	Country of Incorporation	Proportion held	Principal activities
* MEGlobal Canada Inc.	Canada	50%	Petrochemicals
* MEGlobal B.V.	Netherlands	50%	Petrochemicals
* Equipolymers B.V.	Netherlands	50%	Petrochemicals

33- Subsequent events

On 14 April 2005, GlobalSantaFe purchased 23,500,000 shares of GlobalSantaFe at a net price per share of US \$ 34.02 from SFIC Holdings (Cayman), Inc.