مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

P.O. Box 26565 Safat 13126 State of Kuwait - Tel.: (965) 4993000 - Fax: (965) 4994991 - Email: info@kpc.com.kw

www.kpc.com.kw

OUR WORLD . . OUR SOCIETY . . FOR WHOM WE CARE

KUWAIT PETROLEUM CORPORATION

ANNUAL REPORT 2006 - 2007

مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

OUR WORLD . . OUR SOCIETY . .
FOR WHOM WE CARE

OUR WORLD . . OUR SOCIETY . . FOR WHOM WE CARE

ANNUAL REPORT
2006-2007

ANNUAL REPORT
2006-2007

H.H. Sheikh Sabah Al-Ahmad
Al-Jaber Al-Sabah
Amir of the State of Kuwait

H.H. Sheikh Nawaf Al-Ahmad
Al-Jaber Al-Sabah
The Crown Prince

content

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 Kuwaiti hydrocarbon resources.

KPC has an important role in 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.

Vision

- Be a highly profitable and performance driven company.
- Contribute significantly to the support and development of the Kwaiti 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.

Values

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

Chairman's Message

At the outset, I am pleased to present to you, on behalf of my fellow members of the Board and myself, KPC's annual report for the fiscal year (April 2006 – March 2007), which was a witness of many important developments and achievements.

During this fiscal year, KPC realized net profits of KD 1,708 million. The return on average invested capital was 16.3% and the return on the average total equity was 17.2%.

KPC's exports of crude oil amounted to 1.7 million bpd during the fiscal year 2006/2007. Exports of petroleum products (kerosene, diesel, naphtha, and fuel oil) and liquefied gas amounted to about 726 thousand bpd.

Major achievements of the year included continued announcements of new oil and gas discoveries in various areas of Kuwait, as part of the efforts made to enhance the crude oil and natural gas reserves through intensive exploratory programs.

A number of capital projects were completed and commissioned during this fiscal year, most notable of which was building piers 5 and 6 at the Southern Loading Terminal at Mina Al-Ahmadi Refinery and the acidic gases treatment project at Shuaiba Refinery. Progress has been also made in many major capital projects in the refining activity such as the project of building a new refinery at Al-Zoor Area, and in the petrochemical activity such as the Aromatics, and Second Olefins and Styrene Projects. Within the Kuwait Oil Tankers Company (KOTC) marine fleet re-vamping plan, oil tankers Al-Salam

II and Al-Sour I were delivered in addition to a service boat. A crude oil tanker, two liquefied gas tankers, a products tanker and two bunker fuel tankers are expected to be delivered during the forthcoming fiscal year.

As for the expansion in the domain of refining and petrochemicals in Asia, a Memorandum of Understanding was signed with prospectus partners for the establishment of a refinery and petrochemical complex in China. Work is progressing in evaluating the feasibility of the project and studying the Chinese markets as well as defining the project and the participation details.

Kuwait Foreign Petroleum Exploration Company (KUFPEC), engaged in exploration and production outside Kuwait, managed to acquire a development concession in the western Mediterranean sector of Egypt in addition to production assets in Mauritania.

KPC and its Subsidiaries put health, safety and environment on the top of its priorities. In order to take KPC and its Subsidiaries to a pioneering level in this arena regionally and internationally, a number of capital projects has been implemented to preserve the environment. Subsidiaries have reached high rates of injury-free operation. It is worth mentioning that KNPC has received many awards in this field, including the golden award of the Royal Society for prevention of accident at oil refineries.

In continuum of the efforts made by KPC and its Subsidiaries to develop the national workforce, the total operational and non-operational manpower as at the end of the fiscal year was 15,093 employees. The national manpower in the oil sector increased from 77.6% to 78.5%, marking an increase of 0.9% over last year.

In line with the sector's tendency to serve the various segments of the community and to contribute to developing our countrymen, the first batch of Kuwaiti technicians graduated. Also 900 Kuwaitis have graduated to work in security and fire fighting jobs. Kuwaitization in the contractor workforce has also increased to 21.42% as at the end of the fiscal year. KPC Petroleum Training Centre has received a large number of international certifications including the ROI Academy and the Investor in People Certificate, thus becoming the only Centre in the region to obtain this certificate.

During the fiscal year, the Enterprise Risk Management system (ERM) for the oil has been completed and implemented on trial basis in the International Marketing Sector. Results have been positive and encouraging calling for full implementation. Also the insurance policies have been successfully renewed, and the premium for most of these policies has been decreased by 4% - 18%.

As part of the efforts to invest in the new energy production technologies, KPC has entered in three strategic investment funds. Opportunities are being explored for the direct investment fund and the technological innovation fund.

During the year KPC has sponsored many social, cultural, media and national events in support of its communication with the Kuwaiti community.

Finally, I would like to thank all staff members of KPC and Subsidiaries for their dedicated efforts and continued support and urge them to keep up the team spirit in order to continue, with the assistance of God the Almighty, their achievements and more successes taking our beloved homeland to better levels of wellbeing and prosperity. May God protect Kuwait.

Ali Jarrah Al Sabah
Minister of Energy
Chairman – Kuwait Petroleum Corporation

Board of Directors

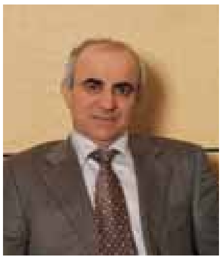
Hani Abdulaziz Hussain
Deputy Chairman & CEO of KPC

Sa'ad Ali Al-Shuwaib
Chairman & Managing Director of PIC

Jamal Abdulkaleq Al-Nouri
Managing Director, International Marketing

Sami Fahad Al-Rushaid
Chairman & Managing Director of KNPC

Sh. Talal Al Khaled Al Sabah
Board Member



Farouk Hussain Al-Zanki
Chairman & Managing Director of KOC

Abbas Ali Naqi
Undersecretary Ministry of Energy

Abdulmalek Al-Gharabally
Board Member

Abdullah Hamad Al-Roumi
Chairman & Managing Director of KOTC

Khalifha Musaed Hamada
Acting Undersecretary Ministry of Finance
Board Member

Khaled Saleh Buhamra
Board Member

Yahya Fahad Al-Sumait
Board Member

Financial Performance in the fiscal year ended on 31st March 2007

• Charity day to raise funds for Lebanon war victims

KPC's consolidated revenues for the fiscal ended at 31 March 2007 amounted to KD 22,352 million, of which KD 21,771 million represented current operations revenues and KD 581 million other revenues. Consolidated expenses amounted to KD 20,644 million.

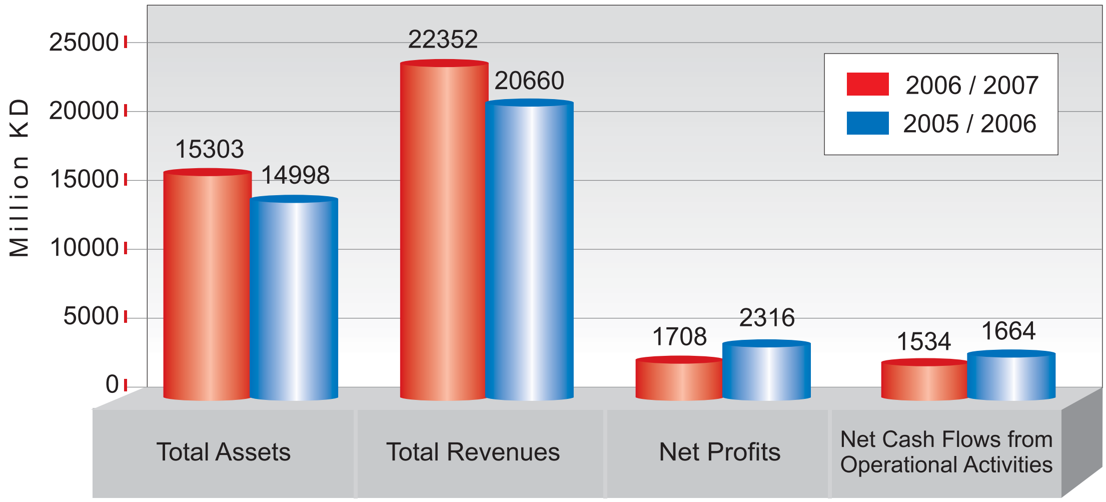
Consolidated profits amounted to KD 1,708 million compared to KD 2,316 million in the fiscal year 2005/2006, of which the trading and operations profits (operational profits) counted for KD 1,188 million compared to KD 1,658 million in the fiscal year 2005/2006, investment revenues for KD 368 million compared to KD 621 million in the fiscal year 2005/2006 and the remainder of KD 152 million represented other net revenues compared to KD 36,5 million in the fiscal year 2005/2006.

The downfall in the profits by KD 608 million is basically attributed to the decrease in the investment revenues by KD 253 million due to the profits realized last year from selling KPC share in Santa Fe Co. and the decrease in the operational profits by KD 470 million against increase in the other revenues by KD 115 million.

Return on invested capital amounted to 16.3% compared to 22.9% in the fiscal year 2005/2006. Return on equity amounted to 17.2% compared to 24.1% in the fiscal year 2005/2006.

KPC succeeded in financing the programs of its current capital projects and posting dividends distribution to the State in the amount of KD 1,537 million from self-financing resources. Investment in fixed assets during the fiscal year amounted to KD 1,566 million compared to KD 1,008 million in the previous fiscal year.

Major financial performance indicators



Developments of the International Oil Market

International economy and oil supply and demand

Growth of the international economy is declining year after year. In the fiscal year 2006/2007 growth rate amounted to 3.2% compared to 4.5% in the previous year.

The hydrocarbon energy consumption growth fell down from 2.7% in 2005 to 2.3% in 2006. The world's hydrocarbon energy consumption totalled 236 million bpd, which is attributed to the slowing global growth in addition to the fact that winter last year in Northern America was not very cold.

The non-hydrocarbon energy growth rate fell down to 3% from 3.5% in the previous year. In line with the declining demand on non-hydrocarbon energy last year, demand on oil stood at 35% after a stable rate of 36% last year. The largest decline in the growth of hydrocarbon energy was in the hydroelectric energy, then nuclear energy and solid fuel.

Demand on crude oil growth rate during the year amounted to 1.3%, which goes in line with the 1% growth rate of the past year. There was an increase in the total demand on oil by 1.1 million bpd compared to 0.9 million bpd last year. The world's demand on oil totalled 84.5 million bpd during the fiscal year 2006/2007.

Crude Oil and Petroleum Products Prices

During the present fiscal year 2006/2007, the average crude oil price rose by US$ 10 per barrel, about 15-20% over the last fiscal year. It has reached record figures in early August, when Brent crude amounted to US$ 78.8 per barrel, Dubai Crude US$ 72.3 per barrel and West Texas US$ 76.9 per barrel. OPEC's crude basket rose to US$ 72.6 per barrel. The rise in oil prices in July and August 2006 is attributed to many reasons, including increasing demand on gasoline in the USA, fear of natural disaster (storms), closure of part of Nigeria production facilities due to political conditions, decrease in BP's production after the leak in a pipeline from Alaska, unstable political conditions in the Middle East due to the tension resulting from the Israeli attacks on Lebanon and Iran's nuclear programs.

The petroleum products prices increased by 20% compared to previous year following the significant increase in crude oil prices.

Local Activities

• Part of a weekly staff meeting at the Finance Sector

Exploration and Production

On-shore Operations

Kuwait Oil Company (KOC), a Subsidiary of KPC, managed to enhance its crude oil and natural gas reserves through carrying out intensive exploratory programs. New stocks of crude and associated and free gas were discovered in various areas of Kuwait, most notably of which were:

- New stock of crude and associated gas in Um Al Rous area west of Kuwait. Initial studies on the exploratory well indicated a productive capacity of up to 4,600 bpd.

- A study conducted on Sabriya area (Northern of Kuwait) indicated presence of associated gas of 180 billion ft3 and a stock of light oil of 15 million barrel in Zubair layers.

- Natural gas and light crude was discovered in Sabriya (Northern of Kuwait). Initial studies indicated high production capacity of 7.4 million ft 3 per day of natural gas and about 3,300 barrel per day of high quality light crude.

- Very light crude oil was discovered at Bahra area (Northern of Kuwait) with quality density degree of 42 API. Examinations resulted in high production capacity of about 5,850 bpd in average and daily average gas production of up to four million cubic feet from the Maraat middle layer.

KOC's average production of crude oil during the fiscal year 2006/2007 amounted to 2,338 million bpd. At the same time, KOC is currently carrying out a number of capital projects that aim to reach with the production capacity to 4 million bpd by 2020 and to enhance the efficiency of the production facilities and to develop them as to reduce risks and prevent incidents. The following projects are underway:

- **Developing the crude oil exporting facilities at the northern and southern farms and at Mina Al-Ahmadi as well as the bunkering facilities.**

  The project works continue, including construction of tanks and laying marine pipelines and building new capstan anchorages to increase the exporting capacity gradually to 3 million bpd before the end of 2010. The project is due for completion in July 2009.

- **Revamping KOC oil facilities (Group A) Southeast of Kuwait.**

  Work is progressing in the project for revamping 7 Gathering Centres (GCs) and two gas booster stations. Completion is expected in February 2009.

- **Revamping KOC oil facilities (Group B) Southeast of Kuwait.**

  Work is progressing in the project for revamping 10 GCs and one gas booster station. Two GCs have been put into operation in addition to one gas booster station. Completion is expected in January 2009.

- **Construction of new gas booster station 160 South East Kuwait.**

  The project initial designs have been completed and completion of the project is expected during the fiscal year 2010/2011.

- **Construction of the new GC 24 North Kuwait.**

  The project aims at establishing a Gathering Centre with production capacity of 165 thousand bpd of crude oil and 240 million standard cubic feet of associated gas. Accomplishment is expected in November 2010.

- **Construction of the new GC 16 West Kuwait.**

  The project aims at establishing a GC with production capacity of 100 thousand bpd of crude oil. The engineering designs have been already completed. Commissioning of the Gathering Center is expected to start in July 2010.

• Ceremony to honour long tenure KPC employees

Divided Zone Onshore and Offshore Operations

The crude oil production amounted to about 295 thousand bpd during the fiscal year 2006/2007, which represents Kuwait's share in the Divided Zone in the onshore and offshore areas. Kuwait Gulf Oil Company (KGOC) pursues efforts to improve the production facilities focusing on exploration and development operations with a view to maintain production and add new oil reserves in the onshore and offshore areas. An assured oil reserve of 47 million bpd has been added in Wafra divided zone.

It is worth mentioning that the company is implementing a plan for developing the oil fields in Al-Khafji and Wafra to maintain the production rates and increase them over the five forthcoming years. Work is on going in completing the engineering works and construction of the first stage of the project for developing Al-Khafji field with the aim of upgrading its production capacity to 350 thousand barrel per day (Kuwait's share represents 50%). It is expected to be completed at the end of the fiscal year 2008/2009. As for Wafra field, work has started to develop the field. Also a trial project has been assessed for producing heavy oil in Wafra area by steam injection.

With respect to utilization of the associated gas to reduce burning rates in line with the oil companies' environmental strategy, studies have been completed for utilization of Al-Khafji and Al-Wafra gases. It has been agreed with the Saudi side to utilize the gas equally (50:50). Completion of the surface facilities for gas utilization is expected in 2010, while all projects for gas transportation to Mina Al-Ahmadi for proper utilization will be completed in 2011.

While capital projects have been already completed this year, a number of such projects are still in progress, as follows:

- **Expansion of onshore production facilities for Khafji Oil.**

  The project tender has been awarded and work has started. The project aims at expanding the production facilities and building oil tankers and exporting pumps. The total cost of the project, expected to be completed in 2008, is about KD 20 million.

- **Expansion of onshore production facilities for Al-Hout Oil.**

  The initial design of the project has been completed, while it is expected for completion by the end of 2008 with estimate cost of about KD 13 million.

• Part of KPC's annual open day for Management and staff incepted to enhance communication and bridge gaps

- **Extended experimental plan for steam injection in 1st Eocene reservoir – Wafra.**

  The initial studies have been completed along with the detailed engineering design. Work goes on in the project, which aims at determining the economic feasibility of expanding steam injection and improving estimate modules. The total cost of the project is estimated at about KD 47.5 million and the project is due for completion in mid 2009.

Kuwait Project (Development of North Kuwait Fields)

Oil Development Company (ODC), a subsidiary of KPC, was established on 26th September 2005 with KD 300 million capital to oversee the operations of the foreign companies which will develop and rehabilitate North Kuwait oil fields for achieving the targeted crude oil production capacity.

It is worth noting that the main objective of ODC is to engage a pre-qualified international oil consortium to undertake development of four oil fields north of Kuwait (Kuwait Project) namely Al-Rawdatain, Al-Sabriya, Al-Ratqa and Al-Abdali and to raise the production capacity of these fields to 900 thousand bpd as to serve the best interest of Kuwait and increase income in view of the increasing demand on oil by international markets.

The project also involves technical objectives. It aims to develop difficult reservoirs through improving the reservoir management practices and increasing the extraction of hydrocarbon resources at a reasonable cost. ODC's objectives even extend beyond the development of hydrocarbon resources to achieving human development which focuses on training the Kuwaiti workforce and gaining them the required experience and skill, securing job opportunities for them and transferring and nationalizing technology and introducing modern management methods.

• KPC's Annual Football Championship Award Ceremony

Because a long period of time has lapsed since the pre-qualified International Oil Companies (IOCs) had been provided with the technical details of the project, these details have been updated and provided again to the companies. ODC has also updated the details and economies of the financial form of the project as well as the draft operational services agreement. To this effect, a contract has been made with two investment banks, namely Morgan Stanly and Lazard to review the draft operational services agreement which will be signed with the successful international oil consortium.

ODC looks forward to obtaining the National Assembly's approval of the Kuwait Project so that it can embark on the tasks vested in it and start preparing the final documents, to be followed by an intensive media campaign to cover the remaining parts of the project once approved by the National Assembly.

• One of the KPC's football teams

Refining, Gas Liquefaction and Local Marketing

Refining

Kuwait National Petroleum Company, a subsidiary of KPC, undertakes management of three refineries namely Mina Al-Ahmadi, Mina Al-Shuaiba and Mina Abdulla. The company continued to achieve high rates of crude oil refining and gas liquefaction, thanks to the efforts exerted to prevent unplanned extinguishing of units and avoidance of incidents that lead to partial or total interruption of work at the refineries. Crude oil refined in the three refineries in the fiscal year 2006/2007 totalled about 878 thousand bpd, minimally down by 3,6% below last year's rate due to the comprehensive maintenance performed at the three refineries.

The refining rates made by Shuaiba Refinery alone amounted to 172 thousand bpd, down by 13.5% below the last year due to 21 days periodical maintenance. Shuiaba Refinery went on operations effectively, with focus on safety conditions at the refinery. At Mina Abdulla Refinery refining amounted to about 254 thousand bpd, down by 3.3% compared to last year due to 22 days periodical maintenance. As for Mina Al-Ahmadi Refinery, refining rate amounted to about 452 thousand bpd up by 2.3% compared to last year.

The following table shows refining rates at the three refineries over the past three years:

Refinery	2006/2007 (1,000 bpd)	2005/2006 (1,000 bpd)	2004/2005 (1,000 bpd)
Shuaiba	172.1	198.9	195.6
Mina Abdulla	253.5	261.3	269.2
Mina Al-Ahmadi	452.3	441.7	416.0
Total	877.91	901.9	880.8

Net quantities of petroleum products produced during 2006/2007 amounted to about 43.3 million metric ton against about 44,4 million metric ton in the previous year. The following table shows the quantity of products and percentages of the overall production, compared to quantities produced in the previous fiscal year:

Product	Year's Production			
	2006/2007		2005/2006	
	.000 M T	%	.000 M T	%
Naphtha/Gasoline/Reformat	8908.3	20	9416.7	20.6
Kerosene/Jet Fuel	7911.6	17.8	7931.1	17.4
Gas Oil/Diesel	12008.7	27	13639.9	29.9
Fuel Oil/Residues	11279.1	25.3	10118.3	22.1
Other Products *	3158	7.1	3284.8	7.2
Net Total Products	43265.7	97.2	44390.8	97.3
Consumed/Lost	1248.8	2.8	1227.3	2.7
Total	44514.5	100	45618.1	100

*Including liquefied gases, sulphur, coke, bitumen and propylene gas.

Gas Liquefaction

Feedstock to gas liquefaction plant at Mina Al-Ahmadi amounted this year to 1.026 million cubic feet per day. The total feedstock supplied to the plant represents the gases available from fields and refineries. The plant produced 1,921 thousand metric tons of propane, up by 4% over last year and 1,515 metric tons of butane, up by 3%, and 1,045 thousand metric tons of natural gasoline, up by 9%. The following table shows quantities produced at the gas liquefaction plant over the past two years 2005/2006, 2006/2007:

Product (thousand tons)	2006/2007	%	2005/2006	%
Propane	1920,8	42.9	1850,1	43,3
Butane	1515	33.8	1468,6	34.3
Natural gasoline	1044,5	23.3	956,8	22.4
Total products	4480,3	100	4275,4	100
Lean Gas/billion standard cubic feet	317,8	-	299,5	-

Local Marketing

Fuel stations totally owned by KNPC as at the end of the fiscal year were 37 stations in addition to two stations under construction, against 73 stations in the previous year. All these stations are run by full service system. Stations no more operate by the self-service system.

There was this drop in the number of stations because 40 stations were transferred to the ownership of Al-Sour Fuel Co. in line with the privatization program. Although the program goes on, the company will continue its effort in building new stations to meet the local market needs of oil products.

Fuel sales to the local market during the fiscal year 2006/2007 witnessed an increase of about 6% over the previous year, which reflects the usual increase rate in the total sales of fuel to the local market. Sales totalled 4,193 million litres compared to 3,959 million litres in the previous year 2005/2006.

The following table shows sales of petroleum products to local markets in million litre unit:

Product	2005/2006	2006/2007
Premium gasoline (98 octane)	20	23
Premium benzene (95 octane)	1,790	1,950
Super gasoline (91 octane)	1,068	1,065
Total sales of car gasoline	2,877	3,038
Kerosene	34	37
Gas oil (local market)	1,048	1,119
Total fuel sales to local market	3,959	4,194
Gas oil to MEW	193	810
Heavy fuel oil to MEW	7,458	7,906
Total sales to MEW	7,651	8,716
Total sales of fuel	11,611	12,909
Bitumen (metric tons)	148,598	153,898

It is worth noting that a number of capital projects has been completed and commissioned during the fiscal year 2006/2007, most notable of which was the project for building piers 5 and 6 at the southern loading platforms south of Mina Al-Ahmadi refinery and the acidic gas treatment project at Shuaiba refinery in addition to development of boilers and burners to ensure effective and safe operation at Shuaiba refinery. A number of vital projects are in progress:

- **Enhancing the local marketing capacity of gasoline supply and distribution.**

  This project aims at increasing the petroleum products flow of super and premium gasoline products from Al-Ahmadi and Shuaiba refineries to the local marketing stores at Ahmadi and Sabhan and also to enhance the capacity of the two stores to meet the increasing demand on this type of fuel and to increase the flexibility of these facilities in emergencies. The project is to be completed in April 2007 at an estimate capital cost of about KD 13.8 million.

- **Construction of a new pier and rehabilitation of the northern shipping pier at Mina Al-Ahmadi Refinery.**

  This project consists of several phases, some of which have been completed and others are still in progress. One of the important phases is the construction of a new loading pier to replace the existing southern loading pier at Mina Al-Ahmadi refinery and also rehabilitation of the northern pier at the refinery to continue in service for a minimum of 15 years. Completion of the entire project is expected in November 2008 at a capital cost of about KD 177 million.

• KPC sponsored the Arab Autism walk in support of local efforts

- **Revamping two units for desulphurization of the vacuum distillation residue using catalyst replacement during operation.**

  The project aims at revamping the two desulphurization units at Mina Abdulla Refinery using Chevron technology for replacement of catalyst during operation. Completion of the project is due in August 2007 at a capital cost of KD 50,5 million.

- **Ethane recovery unit at Mina Al-Ahmadi.**

  The project aims at building a new unit for recovery of ethane at Mina Al-Ahmadi Refinery to meet present and future olefins production requirements. A licensed consultant and execution contractor have been selected for this unit. Engineering works and equipment procurement are in progress. The project is due for completion in February 2009 at a capital cost of KD 140 million.

- **Construction of fourth unit for liquefied petroleum gas – Mina Al-Ahmadi Refinery.**

  This project aims at the construction of the fourth unit at the liquefied gas plant at Mina Al-Ahmadi refinery at a daily production capacity of 805 million standard cubic feet for manufacturing the associate gas and condensates produced by KOC and the liquefied petroleum gas produced by KNPC refineries. This project has a particular significance as it will help in treating the expected future increase in feedstock gas and to produce saleable products to capitalize on their economic return. The project is expected to be completed in April 2010 at a capital cost of about KD 222 million.

• KPC held a Quran Memorization competition for employees and their families

- **Revamping affluent water treatment facilities at the three refineries.**

  The primary object of this project is to develop the affluent water treatment facilities generated from the manufacturing units at the three refineries as to meet the terms and conditions of the Public Authority for the Environment (EPA) concerning water pouring to the sea. The project is scheduled to be completed in August 2009 at a capital cost of about KD 55.4 million.

- **The Fourth Refinery Project.**

  Work continues in the new Fourth Refinery Project, which will be the largest in the region with refining capacity of 615 thousand bpd. The main objective of this project is to meet the increasing demand of power generation stations on oil fuel with low sulphur content.

  The four tenders of the project have been announced to pre-qualified companies based on lump sum turn key basis. It was found that the total lowest bids for the four tenders exceed the estimated cost for the project. Accordingly, the tenders were cancelled and a new strategy was prepared for execution taking into consideration the rising prices and the status of the contracting market, by introducing the project again in a semi-tender based on the cost plus cost reimbursable. The critical equipment which requires long period of manufacturing has been purchased. The refinery is expected to be put in operation by the end of 2011.

- **Clean Fuel Project.**

  This project aims at developing Mina Al-Ahmadi and Mina Abdulla refineries to face the international market challenges which require clean fuel of high quality specifications and taking the refining capacity of these two refineries to 800 thousand bpd.

  The pre-feed study has been completed and the feed designs have been started, with expected completion date about August 2011.

Chemical Fertilizers and Petrochemicals

Chemical Fertilizers

The Petrochemical Industries Company (PIC), a subsidiary of KPC, has witnessed an increase in the global demand on chemical products, which was reflected on increasing prices of these products during the fiscal year 2006/2007. The company's fertilizers plants production during the fiscal year 2006/2007 totalled about 911 thousand metric tons of urea, down by 1.5% below the quantities produced in the fiscal year 2005/2006 which totalled 925 thousand metric tons. This drop was due to the planned shutdown of the plants for periodical maintenance.

Petrochemicals

The petrochemical products prices this year have been very positive. One ton of polypropylene was sold in September 2006 at a record price of US$ 1,470 at Syria and Lebanon markets, which was the highest price quoted by the Petrochemical Industries Co.'s polypropylene plant. This was due to the continued demand resulting from the increasing growth rate in the Chinese market to about 10%, which is in turn attributed to the industrial states turning their faces to China to cut their production costs. The polypropylene plant produced on average about 122 thousand metric ton during the fiscal year 2006/2007 over 36% above the targeted production capacity under the fiscal year budget (due to postponement of some maintenance works). A quantity of 123 thousand metric tons of polypropylene has been sold (36% over the quantities expected in the approved budget).

EQUATE Petrochemicals Company, in which PIC holds shares, continued to realize profits for the seventh year in a row. The company's net profit in 2006 amounted to about US$ 566 million during the year. The company's production of polyethylene and ethylene glycol amounted to 993 thousand metric tons during the year.

PIC shares with Dow Chemical Co. for 50% each in M. E. Global, which occupies a pioneering position at the world level in manufacturing the ethylene glycol. The company's production of ethylene glycol this year totalled about 1 million ton and it has realized net profits of US$ 142 million.

The company also shares Dow Chemical Co. for 50% each in Equipolymers Co., who produced this year about 344 thousand tons of the polyester material (PET). Work is ongoing to

• The CEO taking part in a blood donation drive improve the company's financial performance through revamping plants to enhance their manufacturing processes.

Based on the company's strategic goals concerned with petrochemical industries, which focus on high growing petroleum products such as the olefins and aromatics, several major petrochemical projects are being constructed now in Kuwait including:

- **Aromatics Project.**

  Construction works have started on this project and operating plans are being worked out. Completed and commissioning is expected early 2009.

  In September 2004 Kuwait Aromatics Company. was established, in which PIC holds 80% of capital shares and the private sector represented by Qurain Petrochemicals Company with 20% holding. In March 2007, KNPC joined in to hold 40% in Kuwait Aromatics Co., while PIC's holding went down to 40% and Qurain Company's holding remained the same.

  The Aromatics plant will produce brazilin at a production capacity of 781 thousand per annum and benzene at a production capacity of 373 thousand tons per annum in addition to secondary materials accompanying the above major substances.

- **Olefins II Project.**

  Work continues in the project. All the agreements have been signed for participation, selection of consultant and manufacturing technology. Moreover, all the contracts for engineering, supply and construction of the ethylene, ethylene glycol and polyethylene units have been signed. The project is expected to go live in mid 2008.

  In September 2004 Kuwait Olefins Company was established, in which the PIC holds 42.5% of capital shares. Dow Chemical Co. holds the same percentage. The private sector holds shares in the company through Boubyan Petrochemicals Co. which holds 9% and

- participants of the Quit & Win challenge designed to help smokers to stop the deadly habit

  Qurain Petrochemicals Co. which holds 6% holding. The company will produce ethylene, ethylene glycol and polyethylene at quantities of 850 thousand, 600 thousand and 300 thousand tons respectively. The ethane gas will be used from KNPC as a raw material in the project.

- **Styrene Project.**

  Work continues in the project. All the agreements have been signed for participation, selection of consultant and manufacturing technology. Also all the contracts for engineering, supply and construction have been signed. The project is expected to go live in mid 2008.

  In November 2004 Kuwait Styrene Co. was established, in which the Petrochemical Industries Co. holds 57.5% of capital shares and Dow Chemical Co. holds 42.5%. The company will produce styrene at a production capacity of 450 thousand metric tons per annum.

  A memorandum of understanding has been signed with some prospectus partners for the construction of an integral refining and petrochemicals project in China. Work is in progress for evaluating the feasibility of the project, studying the Chinese markets and defining the details of the project and participation. Additionally, a memorandum of understanding has been signed with prospectus partners and initial feasibility study has been conducted for the establishment of olefins plant at the Arab Republic of Egypt.

Marine Transport

Fleet Operations

Kuwait Oil Tankers Company (KOTC), a subsidiary of KPC, transported 27,56 million metric tons of crude oil, petroleum products and liquefied gas during the fiscal year 2006/2007, up by about 5% over last year. The tankers operation rate reached 88.3% down by about 5% below the last year. Loads shipped from Kuwait to loads shipped by the company's fleet amounted to about 65%.

Some changes have taken place in the global marine transport during the fiscal year 2006/2007. Annual and spot chartering rates increased for modern giant oil tankers, small size petroleum products tankers and modern giant liquefied gas tankers, while annual and spot charter rates decreased for large and medium size petroleum products tankers. The following table shows the tankers charter rates for the fiscal year 2006/2007:

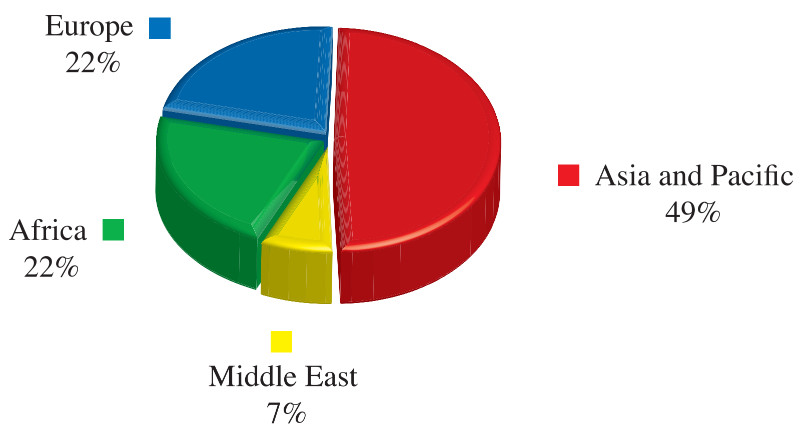
• KPC's annual Eid Reception

Type of tanker	Annual charter rate		Spot charter rate	
	.000 $ daily	Change from past year	.000 $ daily	Change from past year
Giant Very Large Crude Carriers oil tankers VLCC	58	+15%	51	+4%
Large petroleum products tankers LR2	33	-2%	29	-28%
Medium size petroleum products tankers LR1	31	-4%	25	-21%
Small size petroleum products tankers LR	24	+3%	28	6%
Modern giant liquefied petroleum gas tankers	36	+6%	31	+18%

The following table shows the marine transport fleet for the fiscal year 2006/2007:

Type of tanker	No. of tankers	Size of fleet (metric ton)
Crude oil	7	2,076,324
Petroleum products	13	731,146
Liquefied gas	5	242,161
Total	25	3,049,631

Destinations of transported quantities out of total shipping:



Marine Agency Branch

The Marine Agency Branch provided maintenance and repairs, chandlery services, spare parts supply, inspectors and sailors transport as well as pilot boat services to 1,324 tankers that called on the Kuwaiti ports during this fiscal year, of which 81.3% were non-Kuwaiti tankers.

Liquefied Gas Cylinders Filling Operations

12 kg gas cylinders distribution rate maintained an increasingly upward curve of 5% over last year's rate. Cylinders distributed this year numbered 11,151 million cylinders representing 96% of the total production of the various sizes gas cylinders filling plant.

Many capital projects are currently in progress, including:

- **Modernization of the marine fleet.**

  Kuwait Oil Tankers Company received in March 2006 the giant oil tanker Kazima III. Early 2007, the company also received two petroleum products tankers Al-Salam II and Al-Sour I. It has also received service boat late in 2006. It expects to receive crude oil tanker, two liquefied gas tanker and two ship fuel tankers in the forthcoming fiscal year. Additionally, the company is building another four giant tankers and two 80 thousand metric ton product tankers in line with the company's strategy to modernize the company's old fleet.

- **Construction of a new gas cylinder filling plant.**

  Work continues for construction of liquefied gas filling plant at Um Al Eish for a total cost of KD 17.4 million. The land has been officially allocated. Completion is expected in the fiscal year 2011/1012.

- **Construction of six underground liquefied gas storage tanks.**

  The tender for the construction of six underground liquefied gas storage tanks has been awarded. Each tanker will have a capacity of 2,350 cubic meters. The cost is estimated at KD 21 million. Construction works have already started and two tanks have been taken over. These tanks will be used as a strategic coverage for local consumption of liquefied gas for one month. The project is currently in progress, expected to complete in the fiscal year 2007/2008.

Aviation Fuelling

During the fiscal year 2006/2007, KPC has supplied, through its subsidiary Kuwait Aviation Fuelling Company (KAFCO) 32,086 aircrafts with fuel. Quantities sold to customers amounted to about 678,275 million litres, down by 2% below the past year. Kuwait Airways attracts 40% of the company's total sales, other airlines receive 33% and the remaining 27% goes to the Ministry of Defence represented by the air force.

The company has made five new contracts with international airlines and renewed many other old contracts.

A number of projects have been completed including a project for rehabilitation of fuel storage tanks and expansion of the administration building. Also, contract for the company's new tank has been signed in April 2006, with capital cost estimated at about KD 42 million. The project is due for completion late 2008.

• A field visit by KPC employee offsprings to Social Care Homes

International Activities

• KPC sponsored the national festival to honour Kuwaiti talents

Exploration and Production

Kuwait Foreign Petroleum Exploration Company (KUFPEC) achieved in 2006 net profits of US$ 210 million (7.5% above the budgeted figure). Total production of oil and gas in 2006 amounted to 59,965 equivalent barrels (61% gas and 39% oil). The company's reserves base of oil and gas amounted to 197,42 million equivalent barrels.

The company continued the effort to grow its assets which include concessions for drilling and exploration in 15 countries around the three continents. It has managed in 2006 to acquire a development concession in west Mediterranean in Egypt in addition to productive assets in Mauritania.

Foreign Refining, Marketing and Distribution

Kuwait Petroleum International Company (KPI), a subsidiary of KPC, has realized consistent financial results. Milazzo refinery in Italy has realized about 29% as return on the invested capital, while Europort in Holland realized 9%.

Crude oil and petroleum products prices remained high in 2006/2007, which was reflected on the consumer and industry in Europe. Efforts continue to enhance effective use of fuel and to find alternatives to replace fuel.

Expected demand on oil and petroleum products at the beginning of the year was humble compared to the previous year. Nevertheless, the demand continued to drop in the retail sales and direct sales for the third consecutive year, which declined by 2% to 3% in average. As a result KPI overall realized less sales than budgeted in 2006/2007, although the company's sales in Italy and Spain as well as its sales of lubricants exceeded the expected figures.

In comparison with the previous year, KPI showed slight growth in the total growth indicator (101% of last year's sales). Jet fuel sales rose (109% of last year's sales) due to the growth achieved by low cost airlines companies for short and medium flights in Europe. The company also managed to maintain the same sale rates of the last year in the market where it exists, except in northeast and west of Europe where significant downfall of 8% compared to last year, which was largely hit by the decline in demand on market sales due to some pressures on direct market sales.

Despite the relatively low volume of sales this year 2006/2007, KPI managed to realize US$ 393 million in actual operating profits, up by US$ 14 million over the budgeted figure and up by US$ 52 million over the last year 2005/2006.

The company is currently working on re-engineering its business to enhance its profitability and cut its expenses to realize a reasonable level of sales.

• Launch of the Code of Conduct Campaign

International Marketing

KPC's exports of crude oil in the fiscal year 2006/2007 averaged 1.7 million bpd. As for petroleum products (Kerosene, Diesel, Naphtha and Oil Fuel and Liquefied Gas), daily exports totalled 726 thousand bpd. As for Kuwait export's of petroleum coke and sulphur, total exports this year amounted to about 15 million metric tons compared to 1,7 million metric tons in the previous year, down by 200 thousand metric tons below the previous year.

Consistent with KPC's strategy to increase the long term contracts, long term crude oil contracts have been increased by 10%. In China, these have been increased by 100%. Several long term contracts for intermediary derivatives have been made. The quantity of long term contracts for gas oil amounted to 2,7 million tons annually. Bangladesh contract of intermediary derivatives was renewed to the end of 2008. Additionally, the marketing share in China has been increased to 15% of the total long term liquefied gas contracts. Also long term contract for fuel oil has been signed in the Arabian Gulf market, while the marketing share in India has been increased through signing a long term contract with Transfert Co. of India involving quantities of about 105 thousand tons.

KPC has also marketed Al-Khafji and Al-Hout crudes to India for the first time. It also managed to sell the Kuwaiti crude oil to Europe using the Far East pricing formula. Furthermore, 2 million barrels of crude oil has been stored in South Korea for the first time.

KPC also marketed diesel with 0.2% sulphur content to the Indonesian company, which require 0.35%. It has also marketed large quantities of fuel oil in Singapore and Arabian Gulf markets.

KPC continues to explore and develop new markets for its crude oil and petroleum products.

Privatization

• Fun family day at the spring camp

KPC's strategic directions stipulate that support should be provided to the local economy consistently through creating new investment opportunities for the private sector and through privatization of some activities and subsidiaries and getting the private sector involved in the oil operations and projects as well as through relying on the private sector for contracting works, engineering, support services and encouraging it to use the KPC's operational output in establishing subsequent transformational industries.

Accordingly, major achievements in privatization during the year included the following:

- Completed assessment and privatization strategy and obtaining approvals for privatization of the Petrochemical Industries Company's polypropylene plant.
- Completed assessment of the privatization strategy of the 30% holding in KUFPEC.
- Accomplished preparations and drafting the decree for the establishment of the Supervisory Commission on Oil Sector.
- Accomplished a number of studies on the projects to be privatized such as post-privatization corporate governance, policy for dealing with Kuwaiti workforce and the financial strength of the local market to absorb the same.

Support Services

• Annual Qirqaan celebration held at Ramadan to mark a traditional Kuwaiti custom

Oil Sector Services Company (OSSC) was established in August 2005 to undertake management and provision of all support services to KPC and subsidiaries. These services include provision of social, medical and housing services to the oil sector employees and their families in addition to services related to in-kind benefits of the employees as well as security and safety services to other oil companies assets and provision of requirements and services to the fire units in the subsidiary oil companies and provision of specialized labourers and acquisition, construction, lease, management and operation of real estates and assets related to the above purposes.

In achieving the objectives of its incorporation, the company made several accomplishments during the past fiscal year, namely:

- Preparation of the security body and fire body of the company.
- Evaluation of the security situations in the oil sector and unifying the security activities in the oil sector.
- Taking all the necessary measures for the transfer of Kuwait Santa Fe Engineering and Petroleum Co. to be fully annexed to the OSSC early April 2007.
- Preparation of the unified housing system for the oil sector and preparation of the employees housing plan.
- Commencement of rehabilitation of the existing hospital building and development of the hospital professional cadres by associating it to health and academic institutions in Kuwait such as the Faculty of Medicine of Kuwait University or foreign institutions such as Cleveland Hospital in the United States.

Heath, Safety and Environment

• Launch of HSE Management system at OSC

KPC and Subsidiaries put Health, Safety and Environment (HSE) on the top of their priorities list. KPC endeavours to become a world-class pioneer with respect to HSE as an important part of its strategic endeavours. Accordingly, KPC is keen to manage its operations in accordance with the international HSE practices in order to ensure the safety and health of staff, contractors, vendors, clients and community and also to ensure protection of the environment. Among major accomplishments of KPC and subsidiaries in this era are:

- Execution of a number of capital projects that aim to preserve the environment and abide by the environmental criteria determined by the Public Authority for the Environment.
- Formation of the Higher Committee for Health, Safety and Environment for the Oil Sector Complex. Four subcommittees have been also formed namely:
  - Rules, Procedures & Training
  - Emergency Preparedness
  - Occupational Health, Ergonomic & Office Safety
  - Awards & Recognition
- Launching the comprehensive media plan for the implementation of the HSE Management System for the Oil Sector Complex, which included a number of programs aiming at raising awareness and instilling a new HSE culture, namely the Ideal Driver, Quit & Win Challenge and the Ideal Health Challenge.

- Completed the implementation of 38 applicable executive measures related to HSE for the Oil Sector Complex.

- Approved plan and action plan for implementation of KPC HSE Management system in the Subsidiaries. Two main committees have been formed to follow up implementation of the system:

  - HSE System Committee
  - HSE System Executive Committee

  Further, two subcommittees have been formed: Environment Committee and Oil Sector Operations Safety Committee.

- Developing a system for evaluation of senior staff of KPC and subsidiaries in the era of HSE as part of the incentive plan for the sector senior staff members.

- Kuwait Institute for Scientific Research (KISR) started on 7th January 2007 the project for monitoring the internal air quality and impact of the surrounding environment of the complex. The project is expected to take one year from commencement.

- KOC inaugurated the Desert Spirit Reservation at Burgan field in addition to the establishment of the Marine Reservation south Mina Al-Ahmadi aiming to rehabilitate the marine environment, building coral reefs and resettlement of fish and sea species in their natural environment again.

- KNPC's dedicated efforts in the era of safety continued. Major achievements in this respect included:

- Mina Shuaiba achieved 4,85 million accident-free man-hours
- Mina Al-Ahmadi achieved 1,0 million accident-free man-hours
- Projects Department achieved 2,145 million accident-free man-hours
- Local Marketing Department achieved 1,74 million accident-free man-hours

• Part of a festival at KPC's spring camp

- KNPC also ranked 2nd in KSA Environment Award for the best environmental applications in the governmental sector and the international safety certificates from the British Safety Institute. The three refineries and the Local Marketing Department also won the Golden Award of the Royal Society for the prevention of incidents in oil refineries.

- The Petrochemical Industries Company (PIC) capped its celebration of the Safety Day by achieving 3,6 million incident-free man-hour.

- (PIC) preserved the quality certification ISO-9001/2000 and the environment quality certificate ISO-14000.

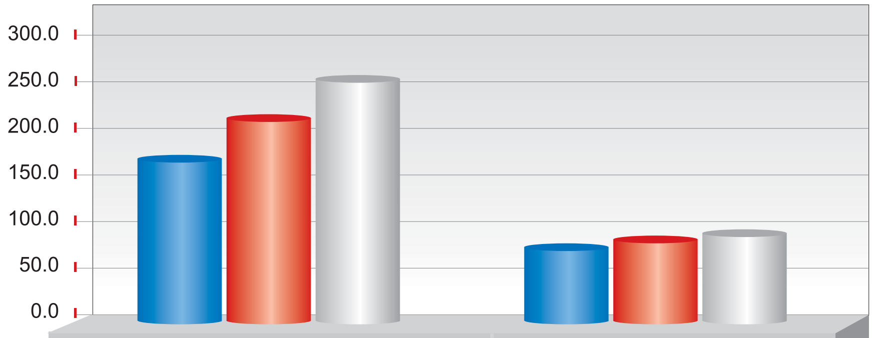
- Kuwait Petroleum International Company (KPI) introduced the OSAT system to HSE system checking processes.

- KPI's Europort Refinery achieves four years accident-free.

- In line with its endeavours to achieve the slogan "No Accidents, No Damages to Individuals or the Environment", KUFPEC developed a large-scale training program to qualify the company's employees.

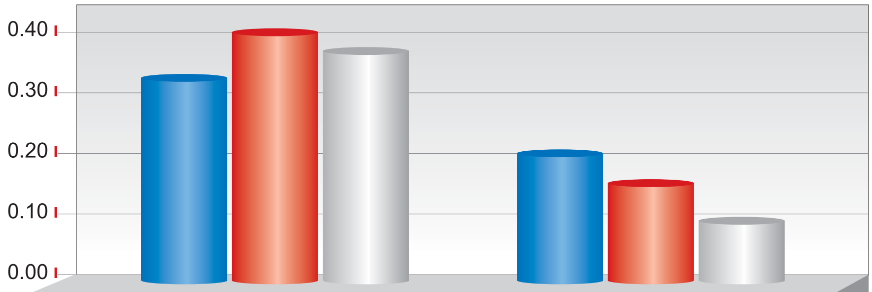
- Kuwait Aviation Fuelling Company (KAFCO) started implementation of the Comprehensive Safety System in cooperation with DNV International Co.

Comparison of the register of training hours and participation in KPC and Subsidiaries



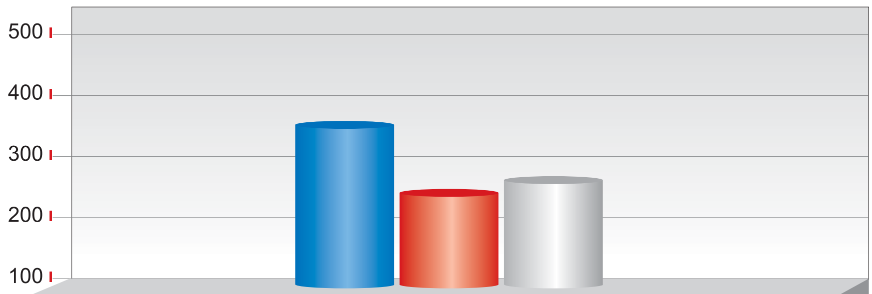
	Training hours (thousand)	No. of participants (thousand)
2004 / 2005	173.5	72.1
2005 / 2006	210.6	75.7
2006 / 2007	253.7	77.2

Rate of time-lost injury cases at KPC and Subsidiaries



	Employees	Contractors
2004 / 2005	0.35	0.20
2005 / 2006	0.40	0.15
2006 / 2007	0.37	0.08

Comparison of traffic accident register at KPC and subsidiaries



	Traffic accident
2004 / 2005	355
2005 / 2006	240
2006 / 2007	262

Enterprise Risk Management

- Launch of Enterprise Risk Management system (ERM) at KPC

This year, work started in the Enterprise Risk Management (ERM) project for KPC and subsidiaries, which is considered the first of its kind in the region. ERM mandates that KPC and its Subsidiaries establish risk management programs to manage all risks facing KPC in the most efficient and effective manner.

A risk management policy and framework has been developed based on an initial list of the risks involving KPC and Subsidiaries. A database of all the risks (risk register) has been prepared. During the fiscal year, the system has been tentatively applied with the assistance of the international marketing sector. Results were positive and encouraging to embark on more sophisticated applications.

The final stage of the project will involve a contract to be made with a major company specialized in programming to develop a specialized program of a bundle of applications to monitor and analyze the various risks and generate the required reports as required by the risk management.

The year also witnessed considerable achievements in renewing the unified insurance contracts. Efforts continued to adopt a well-studied policy to deal with and communicate with the international and local insurance markets. KPC's efforts paid off with its international presence having realized good results in obtaining better coverage against reduced premiums which went down by 4-18%.

Technology, Research and Development

• As part of HSE initiatives, KPC offered fire extinguishers at discounted prices

In line with its quest to achieve its strategic objectives, particularly with those related to the technological challenges of the future and the Kuwaiti oil sector operations, KPC signed in the fiscal year 2006/2007 memoranda of understanding and confidentiality agreement for cooperation in the field of research and development with research institutes inside and outside Kuwait, namely:

- Inside Kuwait: Kuwait University, Kuwait Institute for Scientific Research.
- Outside Kuwait: Cambridge University (UK), Imperial College (UK), University of DU Delphet (Holland) and the French Petroleum Institute (France).

Further, two research projects have been financed for the account of KNPC in cooperation with Kuwait Institute for Scientific Research as part of the budget set for financing research projects for the company.

Concerning attention to research, development and transfer of technology, particularly with respect to investment in technologies for production of new energy, and based on the strategy of investment in the new energy technologies approved in March 2006, KPC Energy Ventures Inc. has been established to invest in this domain, where investments have been made in three funds. Negotiations now continue for investment in companies producing fuel cells within the direct investment fund. The company has also signed agreement with the Industrial Relations Program at Massachusetts Institute of Technology to investigate investment opportunities for the technological innovation fund.

Human Resources

• The winner of the CEO's Photography Competition

Recruitment

KPC gives great attention to the human element, which is the pillar and basic resource for it and for its subsidiaries. Therefore, it endeavours to create a distinguished work environment that helps stimulation, encouragement and enhancement of loyalty and giving. It is also keen to totally rely on Kuwaiti competences to manage and operate its sectors as to avoid any impact on performance and operation.

As at the end of the fiscal year 2006/2007, the operational and non-operational workforce of KPC and subsidiaries totalled 15,093 employees. The national workforce in the oil sector grew from 10,678 Kuwaiti employees, or 77.6% to 11,853, or 78.5% marking an increase of 0.9% over last year. During this fiscal year, KPC and subsidiaries appointed 1,680 Kuwaiti employees, of whom 409 were graduates, 247 diploma holders and 1,016 holders of the general secondary education certificate and 8 holders of intermediary education certificate and below. Non-Kuwaiti recruitments covered 264 employees.

During this fiscal year, a comprehensive scale for technical and professional positions has been developed and tentatively and successfully applied at KOC, KNPC and PIC.

During the past year, the administrative regulations and personnel system were reviewed to go in line with the orders issued by the Board of Directors and the Civil Service Law. Additionally, a promotion system has been prepared for KPC employees; the official/training tasks travel policy for senior officials and employees in the oil sector has been amended; a unified system for penalties and disciplinary actions has been developed in addition to a system for secondment and delegation.

Training and Career Development

KPC achievements continued in training and career development. The fiscal year 2006/2007 saw achievements that centered on implementation of plans and long term strategic directions. KPC continued to provide grants and scholarships to the children of oil and non-oil sector employees to pursue BA, MA and PHD degrees. Ten chairs have been added bringing the total number of scholarship students to 27.

The number of participations in training courses has also increased to about 29,000 carried out at all the oil sector units, of which 24,000 participations were carried out through the Petroleum Training Centre (PTC).

It is worth mentioning, that (PTC) won the ROI Academy certification qualifying it to use the academic tools and techniques in measuring return from training. It has also obtained the Investor in People certificate accredited by the British Government, the British Labourers Union and the Human Development Institute, becoming the only centre to obtain this international certificate in the region. Additionally, PTC was certified by QASET International to issue health and safety certification and also accredited by First Aid Qualification FAQ to issue first aid certifications. PTC also had valid qualification to issue the NVQ certification for refinery operators in addition to acquiring the three ISO certifications in quality of operations, health, safety and environment reservation.

In line with the sector's direction towards serving the various segments of the community and contributing to development of its citizens, the first batch of Kuwaiti technicians have graduated. Furthermore, 900 Kuwaitis have graduated to work in security and fire positions in addition to a large number of graduate, technician and operators of diploma holders.

Kuwaitization rate has been raised in the contractor's workforce from 16.97% as at the beginning of the fiscal when the number of the Kuwaitis was 1863 to 21.42% as at the end of the fiscal year when the amounted to 2221 employees.

Major projects included:

- Establishment of the Assessment and Evaluation Centre for testing and interviewing applicants to the oil sector and contractors' employees.
- Implementation of the training return measurement system at the first three levels: reactions, learning and conduct.

Among the strategic projects being carried out and which will realize KPC's strategic objectives in training and career development are:

- Project for Senior Officials Development System which includes the career succession program for preparation of cadres capable of undertaking future tasks and positions on the map of their career paths.
- Working to reach the fourth phase on the Training Competency System related to measurement of results.
- Implementation of the agreement for exchange of expertise with Shell in various technical and administrative eras.

• Ceremony to honour participants in Technical & Professional Ladder Program

Social and Media Services

• A boat trip for KPC employees and their families

Social Activities and Contributions

In line with its mission as a responsible and effective member of the community, KPC organizes and supports many social activities and social, cultural, media and national events which support communication with the community. The fiscal year 2006/2007 studded with these events, the most notable of which were:

- Organizing the "Charity Day" under the patronage of H.E the Minister of Energy, where donations were given to a number of charities in the State of Kuwait.
- Contributing to developing and promoting the services provided by Kuwaiti Blind People Society.
- Sponsoring the 2nd Scientific Gathering entitled "The Issues of Water in the GCC Countries".
- Sponsoring the 39th General Assembly of the Arab Air Union.
- Supporting and sponsoring the Awareness Campaign on Breast Cancer.
- Supporting and activating the commercial and tourist movement in the State of Kuwait.
- Contributing to the Mother of the Year contest.

- Sponsoring a number of local activities including the contest of the regional Centre of Childhood and Motherhood, honouring the Kuwaiti creative people, 3rd Autism Marathon celebrating the Autism Day and the 6th Media Campaign for Rekaz Project “Filial Piety”.
- Providing support to the 6th Conference of Arab Dentists, the Kuwaiti Society for Smoking and Cancer Fighting, the National Campaign for Blood Donation and the Arab European Conference 2006 for Environment in Kuwait and Volunteer Work Centre.

Participation in Exhibitions

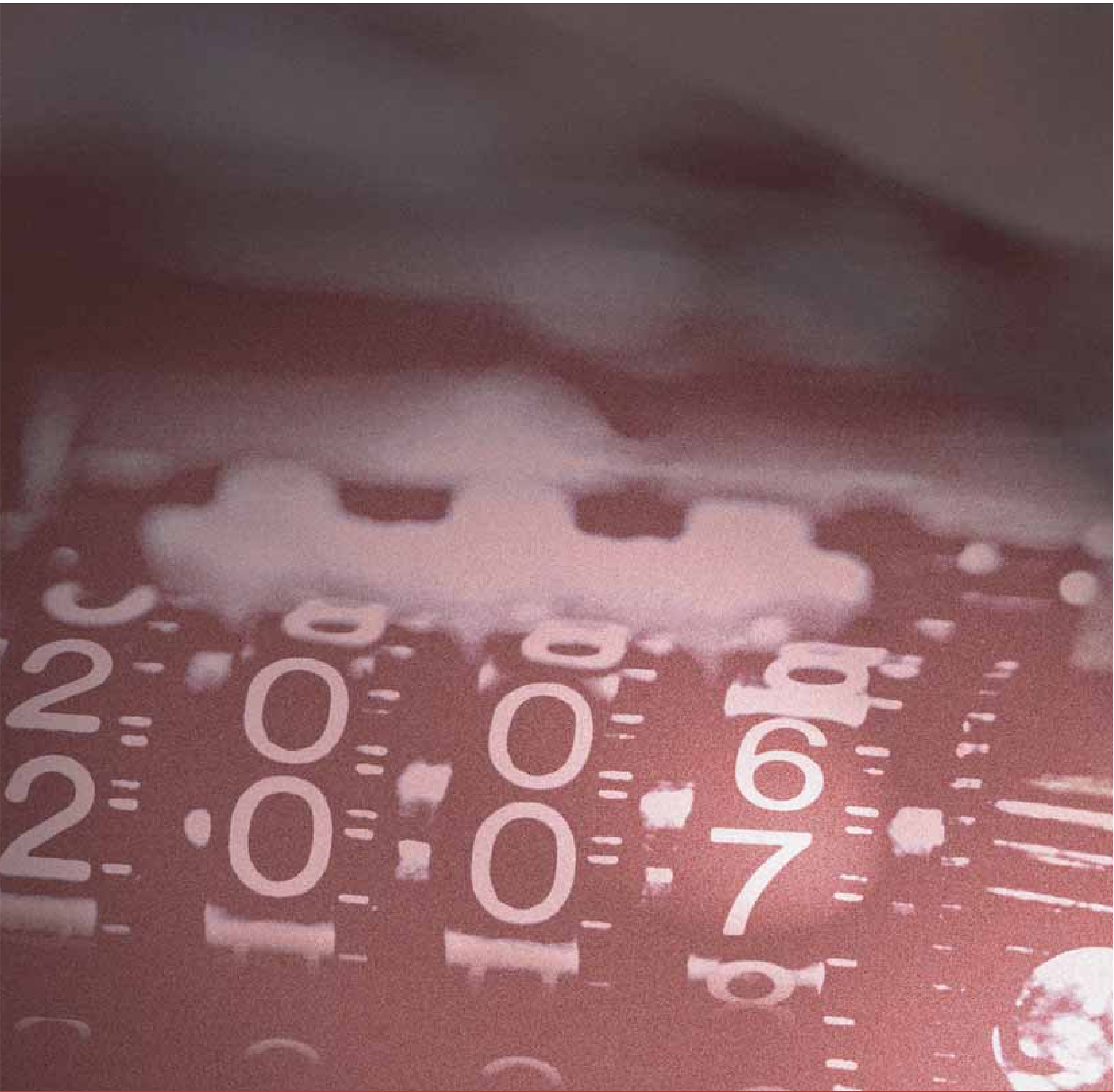
Local Level

- Kuwait 2nd Exhibition for Oil and Gas in November 2006.

International Level

- The Abu Dhabi International Petroleum Exhibition & Conference (ADIPEC) in November 2006.
- 16th International Oil and Gas Conference and Exhibition (Singapore) in December 2006.
- The Middle East 15th Conference and Exhibition (MEOES 2007) (Kingdom of Bahrain) in March 2007.

• Winner of the CEO’s Calligraphy Competition



Kuwait Petroleum Corporation and Subsidiaries

Consolidated Financial Statements

At 31st March 2007

Consolidated Financial Statements

Content

His Excellency, Sheikh Nasser Al-Mohammed Al-Ahmed Al-Sabah

The Prime Minister and
Chairman of the Supreme Council of Petroleum
State of Kuwait

We have audited the accompanying consolidated financial statements of Kuwait Petroleum Corporation (the Corporation) and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 March 2007, the consolidated statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

The management of the Corporation is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

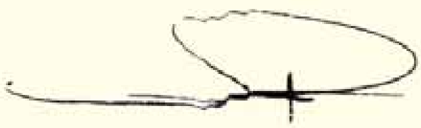
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 March 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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, are in accordance therewith. We further report that the 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 no violations of Law Decree No. 6 of 1980 have occurred during the year ended 31 March 2007 that might have had a material effect on the business of the Group or on its financial position.



WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

6 June 2007
Kuwait

Kuwait Petroleum Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEET

At 31 March 2007

ASSETS	Notes	**2007 KD'000**	2006 KD'000
Non-current assets			
Fixed assets	8	**4,597,446**	3,741,818
Goodwill	9	**184,231**	175,606
Other non-current assets	10	**1,093,653**	814,990
Securities	11	**4,379,700**	4,033,672
Associates and unconsolidated subsidiaries		**358,361**	314,485
		10,613,391	9,080,571
Current assets			
Inventories	12	**1,184,834**	1,181,975
Trade receivables	13	**2,497,616**	2,256,537
Other receivables and prepayments	14	**496,565**	361,156
Taxes receivable	15	**46,380**	30,614
Bank balances and cash	16	**464,473**	2,086,772
		4,689,868	5,917,054
TOTAL ASSETS		**15,303,259**	14,997,625
EQUITY AND LIABILITIES			
Equity			
Authorised and paid-up capital		**2,500,000**	2,500,000
Statutory reserve	17	**1,250,000**	1,250,000
Capital reserve	18	**232,945**	232,945
General reserve	19	**4,336,506**	4,165,737
Reserve for replacement and renewal of fixed assets	20	**1,483,691**	1,483,691
Cumulative changes in fair values		**270,738**	86,405
Foreign currency translation reserve		**76,464**	1,937
Equity attributable to equity holder of the Corporation		**10,150,344**	9,720,715
Minority interests		**4,198**	16,291
Total equity		**10,154,542**	9,737,006
Non-current liabilities	21	**534,811**	536,583
Current liabilities			
Trade payables		**536,844**	471,481
Other credit balances	22	**3,436**	30,145
Other payables and accruals	23	**676,322**	562,078
Taxes payable	15	**316,986**	212,356
Amounts due to Ministry of Oil	24	**1,543,484**	1,364,019
Profit to be distributed	25	**1,536,834**	2,083,957
		4,613,906	4,724,036
Total liabilities		**5,148,717**	5,260,619
TOTAL EQUITY AND LIABILITIES		**15,303,259**	14,997,625

Suhail Bograis
Managing Director – Planning and Finance

Saad A. Al-Shuwaib
Acting Chief Executive Officer

The attached notes 44 to 72 form part of these consolidated financial statements.

Kuwait Petroleum Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

At 31 March 2007

REVENUES	Notes	2007 KD'000	2006 KD'000
Sales of crude oil, gas, refined products and petrochemicals		**21,548,819**	19,694,623
Engineering and other operations	3	**221,878**	210,050
		21,770,697	19,904,673
COST OF REVENUES			
Cost of sales of crude oil, gas, refined products and petrochemicals		**(19,963,674)**	(17,673,868)
Engineering and other operations		**(128,907)**	(129,464)
		(20,092,581)	(17,803,332)
GROSS PROFIT		**1,678,116**	2,101,341
Depreciation and amortisation		**(231,704)**	(215,045)
General and administration expenses		**(254,995)**	(223,543)
Provision for inventory and doubtful debts		**(2,300)**	(469)
Impairment losses - goodwill	9	**(1,212)**	(4,385)
Interest income		**100,720**	57,662
Investment income	4	**171,582**	462,880
Share of profit from associates		**95,848**	100,674
Interest expense		**(14,254)**	(10,940)
Other income	5	**227,398**	144,810
Directors' fees	6	**(90)**	(103)
PROFIT BEFORE PROVISION FOR INCOME TAX		**1,769,109**	2,412,882
Income tax expense		**(60,779)**	(96,511)
PROFIT FOR THE YEAR	7	**1,708,330**	2,316,371
Attributable to:			
Equity holders of the Corporation		**1,707,603**	2,315,519
Minority interest		**727**	852
		1,708,330	2,316,371

The attached notes 44 to 72 form part of these consolidated financial statements.

Kuwait Petroleum Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

At 31 March 2007

	Notes	2007 KD'000	2006 KD'000
OPERATING ACTIVITIES			
Profit for the year		**1,708,330**	2,316,371
Adjustments for:			
Depreciation and amortisation		**231,704**	215,045
Provision for doubtful debts		**2,300**	469
Impairment losses		**1,212**	4,385
Write off of unsuccessful exploration		**25,842**	25,510
Provision for employees' terminal benefits and pensions		**(6,152)**	10,161
(Gain) loss on disposal of fixed assets		**(11,205)**	1,830
Share of profit from associates		**(95,848)**	(100,674)
Interest income		**(100,720)**	(57,662)
Interest expense		**14,254**	10,940
Income tax expense		**60,780**	96,511
Investment income		**(171,582)**	(462,880)
		1,658,915	2,060,006
Changes in operating assets and liabilities:			
Increase in trade receivables		**(475,642)**	(700,316)
Increase in inventories		**(2,860)**	(243,929)
Increase in other receivables and prepayments		**(135,408)**	(24,171)
Increase in trade payables		**65,363**	103,254
Increase in other payables, accruals and other credit balances		**39,571**	80,518
(Decrease) increase in non-current liabilities		**(2,490)**	47,681
Increase in amounts due to Ministry of Oil		**358,243**	343,873
Cash generated from operations		**1,505,692**	1,666,916
Taxes received (paid)		**28,083**	(3,052)
Net cash from operating activities		**1,533,775**	1,663,864
INVESTING ACTIVITIES			
Decrease (Increase) in deposits maturing after 3 months		**344,335**	(298,009)
Net (increase) decrease in securities		**(161,695)**	478,061
Net movement in associates and unconsolidated subsidiaries		**51,973**	437,122
Additions to goodwill		**(4,762)**	(118,913)
Increase in other non-current assets (excluding trade receivables)		**(46,400)**	(43,250)
Purchase of fixed assets		**(1,565,702)**	(1,008,044)
Proceeds from disposal of fixed assets		**336,911**	192,468
Interest received		**100,720**	57,662
Amounts due from Ministry of Finance		**-**	32,284
Net Proceeds from sale of securities and associates		**171,582**	462,880
Net cash (used in) from investing activities		**(773,038)**	192,261
FINANCING ACTIVITIES			
Term loans, net		**54,834**	9,248
(Decrease) increase in minority interests		**(12,820)**	15,219
Interest paid		**(14,254)**	(10,940)
Profit distributed	25	**(2,083,957)**	(1,423,599)
Net cash used in financing activities		**(2,056,197)**	(1,410,072)
Net effect of foreign currency translation adjustments		**17,496**	(110,702)
Net (decrease) increase in cash and cash equivalents		**(1,277,964)**	335,351
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,725,639**	1,390,288
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	**447,675**	1,725,639
Short-term deposits maturing after 3 months	16	**16,798**	361,133
BANK BALANCES AND CASH AT END OF THE YEAR	16	**464,473**	2,086,772

The attached notes 44 to 72 form part of these consolidated financial statements.

Kuwait Petroleum Corporation and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 March 2007

Attributable to equity holder of the Corporation

	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	Minority interests KD'000	Total equity KD'000
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	220	9,482,158
Net movement in cumulative changes in fair values	-	-	-	-	-	76,600	-	-	76,600	-	76,600
Net exchange differences	-	-	-	-	-	-	(69,385)	-	(69,385)	-	(69,385)
Net income (expense) recognised directly in equity	-	-	-	-	-	76,600	(69,385)	-	7,215	-	7,215
Profit for the year	-	-	-	-	-	-	-	2,315,519	2,315,519	852	2,316,371
Total recognised income (expense) for the year	-	-	-	-	-	76,600	(69,385)	2,315,519	2,322,734	852	2,323,586
Transfer to general reserve	-	-	-	231,562	-	-	-	(231,562)	-	-	-
Profit to be distributed	-	-	-	-	-	-	-	(2,083,957)	(2,083,957)	-	(2,083,957)
Net movement in minority interests	-	-	-	-	-	-	-	-	-	15,219	15,219
Balance at 31 March 2006	2,500,000	1,250,000	232,945	4,165,737	1,483,691	86,405	1,937	-	9,720,715	16,291	9,737,006
Net movement in cumulative changes in fair values	-	-	-	-	-	184,333	-	-	184,333	-	184,333
Net exchange differences	-	-	-	-	-	-	74,527	-	74,527	-	74,527
Net income recognised directly in equity	-	-	-	-	-	184,333	74,527	-	258,860	-	258,860
Profit for the year	-	-	-	-	-	-	-	1,707,603	1,707,603	727	1,708,330
Total recognised income for the year	-	-	-	-	-	184,333	74,527	1,707,603	1,966,463	727	1,967,190
Transfer to general reserve	-	-	-	170,769	-	-	-	(170,769)	-	-	-
Profit to be distributed	-	-	-	-	-	-	-	(1,536,834)	(1,536,834)	-	(1,536,834)
Net movement in minority interests	-	-	-	-	-	-	-	-	-	(12,820)	(12,820)
Balance at 31 March 2007	**2,500,000**	**1,250,000**	**232,945**	**4,336,506**	**1,483,691**	**270,738**	**76,464**	-	**10,150,344**	**4,198**	**10,154,542**

The attached notes 44 to 72 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATMENTS

At 31 March 2007

1-CORPORATE INFORMATION

The consolidated financial statements of Kuwait Petroleum Corporation (the Corporation) and its subsidiaries (the Group) for the year ended 31 March 2007 were authorised for issue in accordance with a resolution of the directors on 6 June 2007. These consolidated 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. The entire 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 31. 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 are prepared under the historical cost convention, modified for the measurement at fair value of available for sale securities and derivative financial instruments.

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

Statement of compliance

The consolidated financial statements have been prepared in accordance with Law Decree No. 6 of 1980 and International Financial Reporting Standards (IFRS).

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the previous year.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and its principal subsidiaries. Details of the principal consolidated subsidiaries are included in Note 31. Significant intercompany balances, transactions and profits are eliminated on consolidation.

2-SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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 portion of profit or loss and net assets in subsidiaries of KPC Holding (Aruba) E.C. and Petrochemical Industries Company K.S.C. not held by the Corporation and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the Corporation equity.

Subsidiaries are those enterprises controlled by the Corporation. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Significant inter-Group balances and transactions, including inter-group profits and unrealised profits and losses are eliminated on consolidation. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

The subsidiaries have been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

Unconsolidated subsidiaries

The management is of the opinion that the total assets, liabilities and results of the unconsolidated subsidiaries are not significant to the Group's consolidated financial statements. Accordingly, these subsidiaries have not been consolidated. Also, these entities did not have significant operations during the year.

Accounting periods of group companies

The Group's financial year was from 1 April 2006 to 31 March 2007. 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 KPC Holdings (Cayman), Inc., whose financial periods were from 1 January 2006 to 31 December 2006. 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.

2-SIGNIFICANT ACCOUNTING POLICIES (continued)

IASB Standards issued but not adopted

The following IASB Standards have been issued but are not yet mandatory, and have not yet been adopted by the Group:

IAS 23 – Borrowing Costs
IFRS 7 – Financial Instruments: Disclosures
IFRS 8 – Operating segments
IFRIC 9 – Reassessment of Embedded Derivatives
IFRIC 12 – Service Concession Arrangements

The adoption of the revised version of IAS 23 for periods beginning on or after 1 January 2009 will require the Group to commence capitalising borrowing costs that are directly attributable to expenditure on qualifying assets.

The application of IFRS 7 and IFRS 8, which will be effective for the year ending 31 December 2007, will result in amended and additional disclosures relating to financial instruments and associated risks. The application of IFRIC 9 and IFRIC 12 which will be effective for 2007 and 2008 are not expected to have a material impact on the consolidated financial statements of the Group.

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.

Fixed assets (property, plant and equipment)

(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.

2-SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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	5 - 20	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

Goodwill

Goodwill recognised as an asset

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill on acquisitions after 31 March 2004 is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or Groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or Groups of units.

2-SIGNIFICANT ACCOUNTING POLICIES (continued)

Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Negative goodwill

Negative goodwill on acquisition is measured at the excess of the Corporation's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Negative goodwill is recognised immediately in the consolidated income statement.

Available for sale securities

Available for sale securities are recognised and derecognised, on a trade date basis, when the Group becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments designated as available for sale securities are initially recorded at cost and subsequently measured at fair value, unless this cannot be reliably measured in which case they are carried at cost less impairment losses. Changes in fair value are reported as a separate component of equity. On derecognition or impairment the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

Investments in associated companies

The Group's investments in its associates are accounted for using the equity method of accounting.

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate.

The consolidated income statement reflects the share of the results of operations of the investee. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the interest in the associate.

Distributions received from an associate reduce the carrying amount of the investment.

An assessment of investment in an associate is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

2-SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Interests in joint ventures are accounted for using proportionate consolidation method to comply with the accounting policies of the Group's ultimate Corporation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint ventures with the similar items, line by line, in its consolidated financial statements. The financial statements of the joint ventures are prepared for the year ended 31 December; accordingly, adjustments are made for the effect of any significant event or transactions occurring in the months following the year end of the joint ventures and 31 March.

Where practicable, adjustments are made to the joint ventures' audited financial statements to bring them in line with the Group's accounting policies.

The joint ventures are proportionately consolidated from the date of acquisition of joint control until the date on which the Group ceases to have joint control over the joint ventures. All intra-group transactions and balances are eliminated to the extent of the Group's share in the joint ventures.

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.

2-SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognised either when the Group has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset. A financial liability is de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

Impairment of non financial assets

An asset is impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. 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. An assessment is made at each balance sheet date to determine whether there is objective evidence that an asset may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated income statement.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

1) For assets carried at fair value, impairment is the difference between cost and fair value; and

2) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

3) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

2-SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Foreign currency translation

The consolidated financial statements are presented in Kuwaiti dinars, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The Group's investments in foreign subsidiaries, associates and joint ventures are translated into Kuwaiti dinars at the year end rates of exchange and the results of the subsidiaries, associated companies and joint ventures are translated into Kuwaiti dinars at the average rates of exchange for the year. All foreign exchange translation adjustments are taken to the foreign currency translation reserve until disposal at which time they are recognised in the consolidated statement of income.

Fair values

For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

For unquoted equity investments, fair value is determined by reference to recent arm's length market transactions, market value of a similar investment, expected discounted cash flows or other valuation models.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

2-SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates with the same maturity.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

Other financial assets and liabilities

For other financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

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.

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 the 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 IAS 39, they are stated at fair value. Fair value is assessed by applying prevailing market prices directly to the contract

2-SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives (continued)

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.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Significant accounting judgement and estimates

Critical judgements in applying the group's accounting policies

In the process of applying the Group's accounting policies, which are described in this note, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Recognition of provisions

The Group is subject to a number of matters which could lead to an outflow of economic benefits. In making an assessment as to whether such matters require either provision or disclosure, management is required to consider, amongst other factors, whether a constructive obligation exists at the balance sheet date and whether the resulting risk of an outflow of economic benefits is probable (requiring a provision), less than probable but more than remote (requiring disclosure) or remote (requiring neither provision nor discourse).

In the current year, the most significant judgements made by management relating to the above are:

- The extent to which the Group has constructive obligations in relation to the clean up of environmental exposures in a number of different affiliates;
- The extent to which the Group has constructive obligations at the balance sheet date in relation to various restructuring programs; and
- The extent to which it is probable that the Group will have to make payments in respect of a number of tax, legal and regulatory disputes.

Further details of amounts for which either provision or disclosure was deemed to be required are given in Notes 13, 29 and 30 respectively.

2-SIGNIFICANT ACCOUNTING POLICIES (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are discussed below:

Measurement of provisions

Having concluded that a provision is required for a potential exposure (see above), the amount to be recognised shall be the best estimate of the expenditure required to settle the present obligation at the balance sheet date, taking into consideration any relevant risks and uncertainties and the time value of money. This requires management to make its best estimates of the likely future outflows, the expected timing of such outflows and the discount rate to be applied to such outflows, taking into account the risks specific to the particular exposure. Further details of the nature of provisions recorded by the Group are provided in Notes 10 and 13. The majority of these exposures are expected to be settled over a relatively limited number of years which limits the uncertainty in respect of the time value of money.

Impairment of Goodwill

Determining whether Goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the cost has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Actuarial gains and losses

In calculating the carrying value of its defined benefit schemes, management is required to apply a number of assumptions, the most significant of which are investment growth, future salary growth and discount rate.

Significant accounting judgement and estimates

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.

2-SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

Impairment of available for sale securities

The Group treats available for sale securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

In the case of available for sale securities, reversal of previously recognised impairment losses are no longer recorded through the consolidated income statement but as increases in cumulative changes in fair values.

Classification of securities

Management decides on acquisition of securities whether they should be classified as investments carried at fair value through income statement or available for sale.

The management classifies its securities as carried at fair value through income statement if they are acquired primarily for the purpose of short term profit making and the fair value of those securities can be reliably determined.

Classification of securities as fair value through income statement depends on how management monitors the performance of these securities when they are not classified as held for trading but have readily available fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through income statement. Other securities are classified as available for sale.

Valuation of unquoted equity securities

Valuation of unquoted equity securities is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

3-REVENUES FROM ENGINEERING AND OTHER OPERATIONS

	2007 KD'000	2006 KD'000
Engineering and construction	**9,587**	5,317
Marine operations	**31,517**	31,061
Merchandise and other services	**180,774**	173,672
	221,878	210,050

4-INVESTMENT INCOME

	2007 KD'000	2006 KD'000
Income from managed portfolios and others	**171,582**	156,779
Gain on sale of associates	**-**	306,101
	171,582	462,880

5-OTHER INCOME

	2007 KD'000	2006 KD'000
Gain (loss) on disposal of fixed assets	**11,205**	(1,830)
Recovery of financial cost	**153,974**	95,327
Foreign currency exchange loss	**(38,195)**	(9,454)
Miscellaneous income	**87,922**	54,482
UN compensation claims (Note 26)	**12,492**	6,285
	227,398	144,810

6-DIRECTORS' FEES

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

7-PROFIT FOR THE YEAR

The profit is stated after charging staff costs and compensation of key management personnel as follows:

	2007 KD'000	2006 KD'000
Staff costs	**590,778**	545,185

Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the year were as follows:

	2007 KD'000	2006 KD'000
Short-term benefits	**3,460**	3,100
Termination benefits	**983**	930
	4,443	4,030

8-FIXED ASSETS

	Oil and gas properties	Tankage, pipelines and jetties	Plant and machinery	Oil and gas tankers	Camps, buildings and facilities	Vehicles, transportation equipment and other assets	Construction and general equipment	Well drilling and seismic surveys	Assets under construction and in transit	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 April 2006, net of accumulated depreciation	284,493	462,968	1,191,025	90,768	256,032	38,496	9,351	353,370	1,055,315	3,741,818
Additions	74,133	14,493	41,992	-	60,926	7,889	477	140,780	1,225,012	1,565,702
Disposals	(46,466)	(49)	(5,660)	(1,638)	(2,060)	(2,059)	1,972	-	(269,746)	(325,706)
Transfers	78,252	34,000	142,766	41,753	12,574	9,554	3,354	-	(322,253)	-
Currency translation effects	(1,578)	3,974	30,348	-	9,622	370	600	-	8,620	51,956
Depreciation for the year	(78,508)	(50,823)	(161,907)	(8,120)	(28,676)	(16,480)	(2,629)	(63,339)	-	(410,482)
Write off of unsuccessful exploration	(25,842)	-	-	-	-	-	-	-	-	(25,842)
At 31 March 2007	**284,484**	**464,563**	**1,238,564**	**122,763**	**308,418**	**37,770**	**13,125**	**430,811**	**1,696,948**	**4,597,446**
Fixed assets										
At cost	741,993	1,543,859	3,445,468	305,862	675,000	213,702	41,710	1,096,798	1,696,948	9,761,340
Accumulated depreciation	(457,509)	(1,079,296)	(2,206,904)	(183,099)	(366,582)	(175,932)	(28,585)	(665,987)	-	(5,163,894)
Net carrying amount at 31 March 2007	**284,484**	**464,563**	**1,238,564**	**122,763**	**308,418**	**37,770**	**13,125**	**430,811**	**1,696,948**	**4,597,446**

The depreciation charged in the consolidated statement of income is reduced by KD 179 million (2006: KD 152 million) being the amount charged to the Ministry of Oil in respect of the operations of local wholly owned subsidiaries, Kuwait Oil Company K.S.C. and Kuwait Gulf Oil Company K.S.C.

9-GOODWILL

	2007 KD'000	2006 KD'000
Net book value at beginning of the year	**175,606**	68,740
Additions during the year, net	**4,762**	118,913
Impairment losses	**(1,212)**	(4,385)
Currency translation effects	**5,075**	(7,662)
Net book value at end of the year	**184,231**	175,606

10-OTHER NON-CURRENT ASSETS

	2007 KD'000	2006 KD'000
Long term portion of trade receivables	**860,918**	628,655
Deferred expenses	**83,946**	69,372
Deferred tax asset	**25,100**	28,866
Intangible assets	**46,118**	44,599
Other	**77,571**	43,498
	1,093,653	814,990

Included in trade receivables and non-current trade receivables are KD 255 million (2006: KD 245 million) and KD 861 million (2006: KD 629 million) respectively due from the Ministry of Electricity and Water which do not carry any interest or fixed or determinable repayment dates.

The above balances are stated net of a provision of KD 97 million (2006: KD 96 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 Electricity and Water expenditure budget.

It has been resolved that the Ministry of Finance and Ministry of Oil will undertake to settle the amounts due upon the completion of these formalities.

Approximately KD 30 million (2006: KD 20 million) of deferred expenses represents catalysts used in the refining process which are amortised on a straight line basis over their estimated useful lives.

11-SECURITIES

	2007 KD'000	2006 KD'000
Managed portfolios and funds	**4,340,935**	3,989,704
Other	**38,765**	43,968
	4,379,700	4,033,672

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

12-INVENTORIES

	2007 KD'000	2006 KD'000
Crude oil	**248,453**	263,174
Liquefied petroleum gas	**1,301**	1,505
Refined petroleum products	**644,848**	682,204
Finished petrochemical products	**29,836**	22,088
Spare parts, materials and supplies	**260,396**	213,004
	1,184,834	1,181,975

13-TRADE RECEIVABLES

The Corporation and one of its major subsidiaries, comprising 74% (2006: 78%) 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 21% (2006: 17%) 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 37% of outstanding trade receivables at 31 March 2007 (2006: 32%).

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

Trade receivables include KD 255 million (31 March 2006: KD 247 million), which represents the short-term portion of amounts due from Ministry of Electricity and Water (Note 10).

14-OTHER RECEIVABLES AND PREPAYMENTS

	2007 KD'000	2006 KD'000
Marine sub-charter and other receivables	**164,709**	52,377
Insurance, local tax and other claims	**8,081**	5,528
Prepaid expenses	**38,915**	28,390
Receivable from exchange and concession partners	**17,400**	12,733
Advances to contractors	**103,349**	131,532
Refundable deposits	**20,330**	19,597
Employee receivables	**5,892**	11,295
Other	**137,889**	99,704
	496,565	361,156

15-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.

16-BANK BALANCES AND CASH

	2007 KD'000	2006 KD'000
Cash and current accounts at banks	**89,646**	113,742
Short-term bank deposits and highly liquid investments maturing within 3 months	**358,029**	1,611,897
Cash and cash equivalents	**447,675**	1,725,639
Short-term bank deposits maturing after 3 months	**16,798**	361,133
	464,473	2,086,772

Short-term bank deposits are mainly denominated in Kuwaiti Dinars, Euros and US Dollars. These deposits carry annual interest rates between 3.9% to 6.9 % (2006: 2.51% to 6.25%) and mature within six months from the balance sheet date. These balances are placed with high credit quality financial institutions.

16-BANK BALANCES AND CASH (continued)

Bank balances and cash also include:

US $ 11.63 million (KD 3.37 million) recovered from former employees against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities [(2006: US $ 10.9 million and £ 1.5 million (KD 4 million)]. These amounts, which include accumulated interest, can only be utilised in accordance with the outcome of the litigation (Note 30).

£ 0.122 million (KD 0.069 million) recovered from former employees against whom the subsidiary company has initiated legal proceedings for financial irregularities [2006: US $ 69.9 million, £ 8.1 million, EUR 1.7 million and CHF 4.1 million (KD 26 million)].

The total corresponding amount of KD 3.4 million (2006: KD 30 million) is reported as other credit balances (Note 22).

17-STATUTORY RESERVE

In accordance with Article 12 of Law Decree No. 6 of 1980, the Corporation has resolved to discontinue the annual transfer to statutory reserve since the reserve would exceed 50% of the authorised and paid-up capital.

18-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. No transfer to capital reserve has been made for the current year.

19-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.

20-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 2007 (2006: KD Nil), which is subject to approval of the Supreme Council of Petroleum.

21-NON-CURRENT LIABILITIES

	2007 KD'000	2006 KD'000
Employees' terminal benefits	**186,124**	187,680
Pension fund liabilities	**18,784**	23,380
Long-term loans	**144,061**	137,191
Deferred income taxes	**67,174**	71,265
Provisions	**46,437**	39,376
Other	**72,231**	77,691
	534,811	536,583

The long-term loans represent loans to KPC Holdings (Aruba) A.E.C., Kuwait Gulf Oil Company K.S.C. and Petrochemical Industries 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 EURIBOR plus a margin specific to each loan. 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. The long term loans to Petrochemical Industries Company K.S.C. denominated in USD bear various interest rates, however majority of the loan balances bears average interest at one month LIBOR plus 1.1% per annum.

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 of the subsidiary's management and head office functions from London to Kuwait, together with restructuring of operations in Belgium and Denmark.

The principal defined benefit funds schemes relating to KPC Holding (Aruba) A.E.C. operate in the United Kingdom, Sweden, the Netherlands, Belgium and Italy. Provisions for pension obligations are established for benefits payable in the form of retirement, disability and surviving dependent pensions. The benefits offered vary according to the legal, fiscal and economic conditions of each country. Benefits are dependent on years of service and the respective employees' compensation.

The latest actuarial valuation took place as at 31 March 2007 and this showed that all funds and schemes were in deficit. The main assumptions used in the actuarial valuation were an expected return on assets of 4.2% to 6.9% per annum (2006: 3.7% to 6.9%), an annual salary increase of 3% to 4.8% (2006: 2.9% to 4.5%) and a discount rate of -4% to 5.4% (2006: 3.8% to 4.9%).

22-OTHER CREDIT BALANCES

Other credit balances represent funds recovered from former employees against whom one of the subsidiary companies has initiated legal proceedings for financial irregularities; together with accumulated interest (refer Note 30a). A portion of the balances has been distributed during the year between the subsidiary and the Corporation based on an agreement reached during the year. The remaining balance, which includes accumulated interest, can only be utilised in accordance with the outcome of the litigation (refer Note 30a).

23-OTHER PAYABLES AND ACCRUALS

	2007 KD'000	2006 KD'000
Short-term bank loans	**123,453**	75,489
Provision for annual leave and accrued compensation	**48,244**	50,166
Payable to contractors	**182,865**	92,830
Accruals	**66,140**	66,341
Sundry payables	**216,264**	217,439
Payable to exchange partners	**-**	17,513
Marine sub-charter and other marine payables	**39,356**	42,300
	676,322	562,078

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.

24-AMOUNTS DUE TO MINISTRY OF OIL

Amounts due to the Ministry of Oil 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 Oil. 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.

25-PROFIT TO BE DISTRIBUTED

	2007 *KD'000*	*2006* *KD'000*
Balance at beginning of the year	**2,083,957**	1,423,599
Profit distributed during the year	**(2,083,957)**	(1,423,599)
Profit to be distributed	**1,536,834**	2,083,957
Balance at end of the year	**1,536,834**	2,083,957

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.

26-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 12.5 million (2006: KD 6.2 million) was received in part settlement. This amount is in respect of amounts due to the Group (Note 5).

27-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. The Group, mainly through a wholly owned foreign subsidiary, uses derivative financial instruments for managing risks arising from changes in crude oil and petroleum product prices, exchange rates and interest rates. The Group does not use derivatives for speculative purposes.

Non-current trade receivables totalling KD 861 million (2006: KD 629 million) are due from the Ministry of Electricity and Water (Note 10). 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.

27-FAIR VALUES AND FINANCIAL INSTRUMENTS (continued)

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:

	2007 USD'000	2006 USD'000	**2007 KD'000**	2006 KD'000
Foreign exchange contracts	**866,136**	783,400	**250,790**	229,077

The majority of the balances at 31 March 2007 relating to forward exchange contracts were in Euro/US dollars, Pounds Sterling/US $ with minimal amounts in Danish Krone and Swedish Krona. The net fair value of the foreign exchange contracts at 31 March 2007 and 31 March 2006 is not significant.

28-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 deposits and borrowings. The interest rates of deposits and borrowings are disclosed in Notes 16, 21 and 23 respectively.

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 Oil are normally settled within 30 days of the date of purchase.

28-RISK MANAGEMENT (continued)

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.

29-EXPENDITURE COMMITMENTS

a) Operating lease commitments

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

	2007	*2006*
	KD'000	*KD'000*
Future minimum lease payments:		
Within 1 year	**36,534**	32,255
Between 1 and 5 years	**99,185**	86,633
After 5 years	**38,906**	46,637
Aggregate operating lease expenditure contracted for at the balance sheet date	**174,625**	165,525

b) Capital expenditure commitments

Estimated capital expenditure contracted for by the Group at the balance sheet date but not provided for amounted to KD 1,910 million (2006: KD 2,053 million).

30-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 57 million).

The Group had contingent liabilities of approximately US$ 66.1 million at 31 March 2007 (2006: US$ 223.6 million). These principally relate to a variety of tax, legal and regulatory disputes, all of which are being vigorously contested by one of the subsidiaries of the Group.

Contingent assets

a) Having been formed in 1992, one of the subsidiary company's new management discovered certain fraud cases and financial irregularities in the subsidiary's contracts and bank accounts and, therefore, the subsidiary's board of directors formed a fact-finding committee to investigate those irregularities.

On 6 January 1993, the subsidiary company submitted a report to His Excellency, the Attorney General on its suspicion on occurrence of financial irregularities in previous years, whereby the Public Prosecution conducted the necessary investigations and prepared the indictment sheet in December 1993 and its regulation against five of the accused parties.

One of the accused party absconded before submitting the notification to His Excellency the Attorney General. Another party admitted the facts before the Attorney General, and made payment of US$ 6,200 thousand on allegation that this was the entire amount taken by him. The amount was deposited in a special bank account as a fixed deposit of the subsidiary company and was invested until it became US$ 11,626 thousand (KD 3,367 thousand) including interest as at 31 March 2007.

The case was deliberated before different Kuwaiti courts, culminating in the two cassation verdicts Nos. 137 and 138 of 1997.

Mandated by the former Minister of Oil, Sheikh Saud Al-Nasser Al-Sabah, the subsidiary company sent a letter to the Attorney General on 14 December 1998. The Attorney General considered this letter as a notification and transferred the same to the Investigating Committee concerned with court actions against Ministers, which, in its first formation, considered it as a notification and, subsequently, undertook the investigation procedures. The subsidiary company provided the committee with 40 documents including those deliberated to the English courts with respect to the certain amounts embezzled by the accused parties or other parties. This committee resigned and a new committee was formed on 29 April 2000. On 16 May 2001, the committee considered that the case was not fully complete, without discussions with any witness.

On 29 May 2001 the former Minster of Oil, Adel Al-Subaih sent a notification to this committee against the five defendants, among them is the former Minister of Oil. On 19 May 2003, the committee

30-CONTINGENCIES (continued)

Contingent assets (continued)

considered the action as serious and heard statements of three witnesses from the subsidiary company. The issue is still pending before this committee.

In parallel steps, the subsidiary company has initiated civil cases in the United Kingdom, Switzerland, and other countries, and with the efforts of those working on the case, it won the case filed in the United Kingdom and obtained a judgement against three of the defendants for an amount of US$ 136,000 thousand other than the interest. In addition to this, the case ended with the rejection by the UK House of Lords on 10 December 2000 of the appeal submitted by one of the accused parties. An amount of US$ 85,351 thousand has been collected till 7 May 2006. This collected amount was invested in deposits. The collected amounts along with interest till 7 May 2006 totalled US$ 92,770 thousand plus an amount of US$ 6,200 thousand transferred by the Public Prosecution from one of the accused parties, which was received by Kuwait Oil Tanker Company in Kuwait, which was invested in a deposit renewable with its interest thereon pending a decision on crime No.275/93. The gross amount with interest reached US$ 11,626 thousand till 31 March 2007. Legal measures are being carried out to collect the remaining balance. However, the uncollected amounts of US$ 151,709 thousand pending in the liability of the accused parties comprise of the balance remaining from the total amounts awarded in favour of the subsidiary company according to London's verdict, and inclusive of the interest, till August 2005, amounting to US$ 123,559 thousand plus such amounts, being the difference between the amounts claimed before London Court and those mentioned in the Public Prosecution Charge Report in connection with crime No.275/93, which is the amount of US$ 25,000 thousand, for which a civil case was filed and no final verdict has yet been pronounced, plus an amount of US$ 3,150 thousand (Chesapeake- selling debris of Surf City Vessel) for which a case was filed and no final verdict has yet been pronounced.

Further, the subsidiary company's attorney in Kuwait filed civil cases before the Kuwaiti courts against the accused parties and certain persons who received the embezzled amounts, to claim refunding the funds embezzled by the accused parties and others illegitimately. Verdicts were passed in a number of these cases to temporarily suspend the civil case pending a decision in crime No.275/93, while the other cases are still being deliberated before the courts and experts, in which no final verdicts have yet been pronounced.

An amount of Sterling Pounds 120 thousand was received on 11 October 2006, and invested in a deposit renewable with interest thereon. This amount plus interest amounted to Sterling Pounds 122 thousand (KD 69 thousand) as at 31 March 2007, and will be distributed later, according to the shares agreed upon above.

b) Dry Cargo (358/94 crimes)

This case has been filed against five indictees. This case was referred to the Criminal Court on 2 April 2006 for charges of embezzling funds, illegal profits and forgery. The value of the amounts claimed in the Public Prosecution's report amounted to approximately US$ 10,000 thousand.

30-CONTINGENCIES (continued)

b) Dry Cargo (358/94 crimes) (continued)

In the hearing on 17 June 2006, the court ruled for the imprisonment of indictees for five year with labour and execution, to dismiss them from their jobs, oblige them to refund the embezzled funds, and fine each of them an amount equivalent to that embezzled by him, as well as deport the third, fourth and fifth accused parties from the country after serving the said penalty, and to refer the civil case to the competent civil court. The fourth indictee, challenged the verdict passed against him. In the hearing on 16 September 2006, the court ruled to dismiss the objection and upheld the challenged verdict, which was appealed by the second and fourth indictees and postponed for hearing on 2 May 2007.

31-SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

a) Principal subsidiaries registered in the State of Kuwait:

Directly held

Name of company	Proportion held	Principal activities
• Kuwait Oil Company K.S.C.	100%	Exploration for and production of crude oil and natural gas in the State of Kuwait.
• Kuwait National Petroleum Company K.S.C.	100%	Refining, LPG manufacturing, and local marketing of refined products.
• Kuwait Oil Tanker Company S.A.K.	100%	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.	100%	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.	100%	Provision of design, engineering and related services to the petroleum industry.
• Kuwait Aviation Fuelling Company K.S.C.	100%	Supply of aviation fuel.
• Kuwait Gulf Oil Company K.S.C. (Closed)	100%	Exploration for and production of crude oil and natural gas.
• Oil Development Company K.S.C. (Closed)	100%	Manage and supervise operation services contract with international oil companies.
• Oil Sector Service Company K.S.C. (Closed)	100%	Liaison, public services and oil sector supporting services.

Oil Development Company K.S.C. (Closed) and Oil Sector Service Company K.S.C. (Closed) have not undertaken any commercial activities to date.

31-SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)

a) Principal subsidiaries registered in the State of Kuwait (continued)

Indirectly held

Name of company	Proportion held	Principal activities
• Kuwait Aramotics Company K.S.C.C. (" KARO")	80%	Producing and selling perfume products and other derivatives.

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

Name of company	Country of Incorporation	Principal activities
• KPC Holdings (Cayman), Inc. (previously SFIC Holdings (Cayman), Inc.	Cayman Islands	International contract drilling
• KPC Holdings (Aruba) AEC	Aruba	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
• Kuwait Olefins Company K.S.C.C	Kuwait	42.5%	Petrochemicals
• First Fuel Marketing Company K.S.C.	Kuwait	24%	Fuel marketing
• Al-Sour Fuel Marketing Company K.S.C.	Kuwait	24%	Fuel marketing

d) Principal joint ventures

Name of the company	Country of incorporation	Effective equity interest as at 31 March 2007
MEGlobal B.V. and subsidiaries	Netherlands	50%
Equipolymers B.V. and subsidiaries	Netherlands	50%
MEGlobal Canada Inc.	Canada	50%
OKQ8 AB	Sweden	50%
Reffineria di Milazzo S.P.A.	Italy	50%

31-SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)

d) Principal joint ventures(continued)

The share of the assets, liabilities, income and expenses of the jointly controlled entities for the two years presented are as follows:

	2007 KD'000	2006 KD'000
Current assets	**211,757**	212,795
Non-current assets	**381,393**	279,907
Current liabilities	**(193,112)**	(184,748)
Non-current liabilities	**(78,239)**	(90,512)
Net assets	**321,799**	217,442
Income	**835,667**	787,806
Expenses	**(826,772)**	(768,880)
Profit	**8,895**	18,926