



المجموعة
البتروولية
المستقلة ش.م.ك.



Independent
Petroleum
Group s.a.k.

المجموعة البتروولية المستقلة ش.م.ك. - التقرير السنوي 2002

Independent Petroleum Group s.a.k. - Annual Report 2002

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Annual
Report
2002

Highly
Committed...

IPG has established a solid reputation in the petroleum industry with high recognition for honouring its commitments.



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IPG embarked upon a strategy of focused diversification.



Clear **Strategy...**

Board of Directors

Khalaf A. Al-Khalaf	Chairman
Ghazi F. Al-Nafisi	Vice Chairman
Waleed J. Hadeed	Executive Managing Director
Jasem M. Al-Musallam	Managing Director - Business Development
Abdulla A. Zaman	Managing Director - Planning
Samir S. Shammas	Managing Director - Marketing
Yusuf I. Alghanim	Director
Ali M. Al-Rawdan	Director
Dirrar Y. Alghanim	Director

Message to the Shareholders

As at 31 December 2002

Dear Shareholders,

The IPG Board of Directors is pleased to present to you the annual report on the company's operations for the year 2002.

The Global economic recession continued to be experienced throughout 2002, having a substantial impact on the oil industry, particularly in the Asian and Far Eastern regions. The decreased demand for petroleum products led to an increased surplus in the refining capacities in these regions. Exxon Mobil, for instance, opted to close its 285,000 bpd refinery in Singapore and is now looking for a buyer. British Petroleum is also looking for a buyer for its share in another Singapore 285,000 bpd refinery. The idle refining capacity in Singapore now amounts to 450,000 bpd, out of a total capacity there of 1.260 million bpd (i.e. 35%).

The situation in Europe was just as bad. The refining industry witnessed the worst situation in fifteen years. The sharp drop in refining profit margins resulted in substantial losses for refining companies, including Petroplus in which our company is a shareholder. Petroplus' stock price quoted on the Amsterdam Exchange was down from Euro 18.35 as at the end of 2001 to Euro 7.33 by the end of 2002, giving us a loss in the value of our investment of about KD 1.3 million.

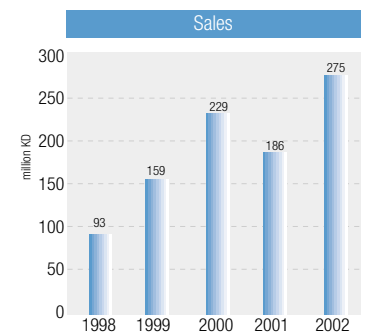
The tension in the Gulf area in the wake of the events of September 11th created an unstable market. This also contributed to high crude oil prices throughout the year. As of 31/12/2001, BRENT oil price stood at about US\$ 19 per barrel, and by 30/12/2002 was about US\$ 28 per barrel, an increase of

about US\$ 9 per barrel. At the same time, and against all normal conditions, the products prices in the Arabian Gulf region rose above the levels prevailing within the Mediterranean area, resulting in reduced, or even negative profit margins at various times in the year. This negatively impacted the company's profits from marketing activity.

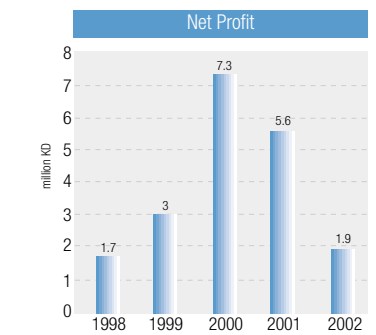
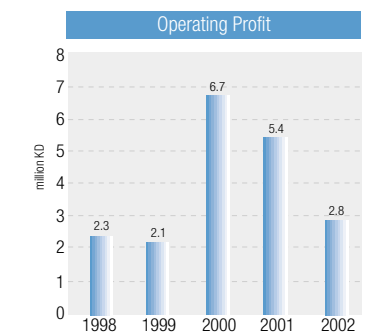
The continued global recession brought about a slump in the stock markets for the third year in a row. The DOW JONES index sank by about 16.8%, as did the NASDAQ Index and the S&P 500 which were down by about 31.5% and 23.4% respectively. This had an adverse impact on the performance of the company's financial portfolio. Under these circumstances, the company's total investment activities suffered losses of KD 821 thousand in 2002 versus 2001's profits of about KD 302 thousand.

The adverse factors that prevailed in the petroleum as well as the financial markets led to company losses in the first half of 2002. However, the company despite the prevailing hardships did realize profits in the second half of the year. The overall annual result was a net profit of KD 1.9 million, or 18% of the company's capital of KD 10.875 million.

2002 was a year of substantial increase in the volume of petroleum products and crude oil marketing operations. Sales figure totalled about KD 275 million compared to KD 186 million in 2001.



This increase in the marketing operations is attributed to the rise in the fuel oil sales through the joint operation with ENOC Bunkering (Fujairah). However the gross profits slumped to KD 4.7 million against KD 7.8 million in 2001 due to adverse market conditions.



IPG's goal is to increase trading activities in its traditional market, while expanding its operations further into new regions.

Continuous Growth...



Message to the Shareholders

As at 31 December 2002

The company maintained its excellent relations with national companies in the region. Supply agreements for 2003 were made with ARAMCO (of KSA), BAPCO (of Bahrain) as well as other companies. The company also maintained its good relations with international and national companies in the various oil importing countries.

The company is gradually reaching its objective of balancing revenues between projects which are more stable in terms of revenue and petroleum products trading whose revenues are more vulnerable to market fluctuations. Following is a brief account of the company's projects during 2002:

I- Working Projects:

- **Petroleum Products Port and Storage Terminal in Fujairah (IPG's share 10%):**

This project maintained an excellent level of performance. The completion of phase II, raised capacity to 812,000 cubic meter. The project had an average usage rate of 95% throughout the year. With the completion of the SBM project during the last quarter of 2002, the vessel traffic rose and so did the project usage rate. The terminal expansion cost of US\$ 126 million was funded from accumulated profits and commercial loans. It is worth noting that IPG's initial investment was US\$ 3.2 million.

- **Petroleum and Petrochemical Product Storage Terminal in Yanbu, KSA (IPG's share 36.5%):**

Comprising 17,000 cubic meter of petrochemical storage tanks, this project also maintained remarkable performance during the First Phase. In September 2002, ENOC, wholly owned by Dubai government became a partner

with 36.5% holding, which entitled the company to take over the project management and embark on engineering works. Expected to start in the second half of 2003 with estimate cost of about US\$ 50 million, Phase II is intended to build 350,000 cubic meter of petroleum storage tanks and to add 5,000 cubic meter of petrochemical storage tanks. Funding of about half of the cost of this phase is expected to come from one of the Saudi Banks.

- **APL, Pakistan Pipeline Project (IPG's share 12.5%):**

As a result of good performance over the year, the project yielded dividend of 45%, equivalent of KD 247,799 for the year ended 30/6/2002.

- **D&K Shipping Ltd. (IPG's share 50%):**

The company, a joint venture with ENOC of UAE, maintained good performance throughout the year. The company owns the tanker Gulf Star, which is chartered by our Group. Also, during 2002 four tankers were added to the company's fleet:

• Gulf Glory	63,133 tons
• Gulf Oasis	7,287 tons
• Gulf Pride	6,816 tons
• Gulf Breeze	7,012 tons

These tankers are chartered by ENOC Bunkering Fujairah LLC (EBFL). D&K Shipping Company seeks to add to its fleet another big tanker with a capacity between 130,000 and 250,000 tons, to be used for floating storage to meet EBFL's operating requirements.

- **The plastic Project in Yanbu (IPG's share 10%):**

The company embarked on extensive study of the market in KSA and is working

on developing the administrative and marketing staff.

- **Petroleum Storage Terminals in Lebanon - Uniterminals (IPG's share 50%):**

Achieving the figure of 250,000 tons in sales storage, the company showed good performance over the year. Further expansions are currently being discussed with our partners to boost income and profits.

- **Project for Bunker Fuel Supply in association with ENOC and Fujairah Energy Projects Co. (IPG's share 24%):**

ENOC Bunkering Co started operation in the first quarter of 2002, running three tankers then adding another one during the second half of 2002. By the end of 2002, monthly sales volume reached 150,000 tons of bunker fuel. The joint venture is seeking to achieve a marketing target of three million tons of bunker fuel in 2003 and four million tons in 2005. With this target growth in mind, the company plans to charter another tanker in the forthcoming year to be used as floating storage.

II- Projects in Progress:

- **Building Petroleum Products Storage Tanks in Beira-Mozambique:**

This project is undertaken by Inpetro Co. which was established for this purpose by several shareholders as follows:

- 1- IPG holding 30%
- 2- National Oil Company of Zimbabwe (NOCZIM) holding 30%
- 3- National Petroleum of Mozambique (PETROMOC) holding 40%

IPG has greatly increased its efforts to develop projects that compliments its marketing operations.

Joint
Ventures...

Message to the Shareholders

As at 31 December 2002

In 2002, the company completed the basic engineering designs and selected the construction company to undertake the construction of the project. An agreement has been made with NOCZIM and PETROMOC for using the tanks when completed. Discussions with South African banks continued regarding the project funding. It is expected that, the funding process will be finalized and construction will commence during the first quarter of 2003.

• Petroleum Products Storage Project in Djibouti:

By the end of 2002, the company agreed to participate in the development of a storage terminal in Djibouti, with the following shareholding:

- 1- Djibouti Government holding 15%
- 2- Porea International holding 20%
- 3- ENOC holding 50%
- 4- IPG holding 15%

The project aims to build a 200,000 cubic meter petroleum product storage facility. The engineering study is currently underway and construction is expected to start in 2003.

Staff and Administration

During 2002, the company implemented its plan for filling staff vacancies in various departments. This included, for instance, the recruitment of General Manager-Marketing ,and Manager- Logistics, in addition to two accountants in the Finance Department. Furthermore, in line with the company's keen objective to attract national manpower, a Kuwaiti Manager was recruited for Business Development in addition to two Kuwaiti employees who are undergoing marketing training. Also based on the company's on-going plan

to upgrade performance and boost employee loyalty, work continued to support each and every employee through providing suitable training and provision of satisfactory administrative services.

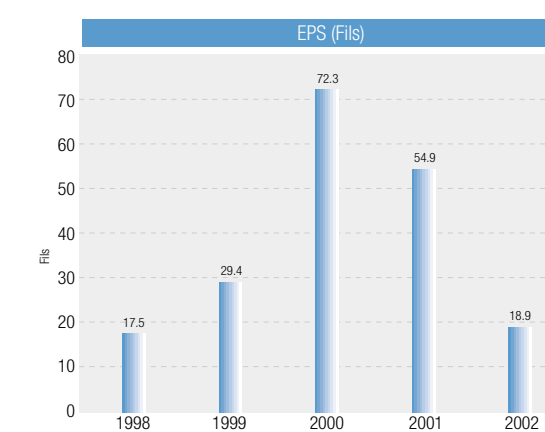
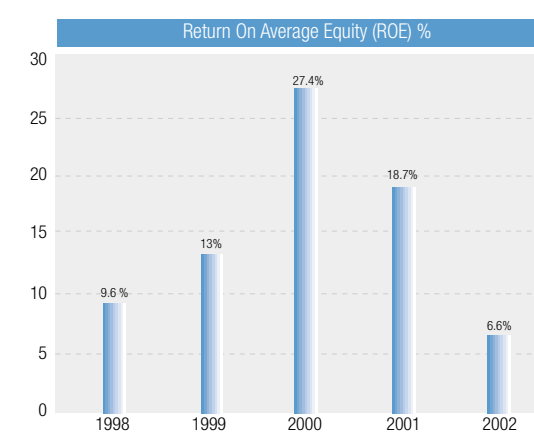
To cope with technological developments, IPG implemented an overall restructuring of its IT infrastructure. Two main servers were procured for filing and applications, and systems were upgraded to the newest versions available. Additionally, measures were taken to ensure development of an Internet and email service and broaden usage throughout the company. An integrated Staff Salary Program was procured and put into use. Also the company's Web Site was activated during the year.

Finally, the Board would like to extend sincere gratitude and appreciation to the shareholders for their valued trust, and to our staff whose continued and sincere dedication contributed much to bringing in such good results in spite of the hardships confronted in the petroleum and financial markets worldwide.

Board of Directors

Financial Highlights

Million KD, except per share amount and ratio data	2000	2001	2002
Sales	228.9	186.4	275
Gross Margin %	4.1%	4.2%	1.7%
Operating Profit	6.7	5.4	2.8
Net Profit	7.3	5.6	1.9
Earning Per Share - Fils	72.3	54.9	18.9
Price Earning - Time	6.6	9.8	21.7
Book Value - Fils	294	297	273
Cash Dividend %	50%	40%	20%
Dividend Yield %	10.4%	7.4%	4.9%
Return on Average Capital Employed %	20.3%	14%	4.9%
Total Assets	73.2	75.9	94.6
Shareholder Equity	29.6	30.3	28
Return on average Equity %	27.4%	18.7%	6.6%



Consolidated Financial Statements and Auditors' Report

For the Year ended 31 December, 2002

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Auditors' Report to the Shareholders

For the Year ended 31 December 2002

The Shareholders Independent Petroleum Group Company S.A.K. (Closed) State of Kuwait

We have audited the accompanying consolidated balance sheet of Independent Petroleum Group Company S.A.K. (Closed) and subsidiaries (the Group) as at 31 December 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Parent Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as at 31 December 2002 and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

Also in our opinion, the statements include the disclosures required by the Commercial Companies Law and the Company's Articles of Association, and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Directors' Report is in agreement with the books of account. According to the information available to us, there were no contraventions during the year of either the Commercial Companies Law or of the Parent Company's Articles of Association, which might have materially affected the Group's financial position, or results of its operations.



Jassim Ahmad Al-Fahad
License No. 53-A
Al-Fahad & Co. Deloitte & Touche



Dr. Shuaib A. Shuaib
License No 33-A
Al-Bazie & Co.

20 January 2003

Consolidated Balance Sheet

As at 31 December 2002

ASSETS	Note	2002 KD	2001 KD
Current assets			
Cash and cash equivalents	3	2,623,105	4,160,203
Investments held for trading	4	21,442,076	23,124,833
Trade and other receivables	5	61,274,494	41,033,334
Inventory		-	2,391,110
Short-term loans		347,919	76,915
		<u>85,687,594</u>	<u>70,786,395</u>
Non-current assets			
Other loans	6	320,563	161,591
Investments available for sale	7	2,488,973	2,488,973
Investment in joint ventures	8	3,015,993	976,788
Investment in associates	9	2,338,059	681,546
Property and equipment	10	728,950	797,531
		<u>94,580,132</u>	<u>75,892,824</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Due to banks	11	37,109,148	25,453,142
Proposed directors' fees		45,000	100,000
Trade and other payables	12	28,889,198	19,653,825
		<u>66,043,346</u>	<u>45,206,967</u>
Non-current liabilities			
Provision for staff indemnity	13	503,442	435,211
Shareholders' equity			
Share capital	14	10,875,000	10,875,000
Share premium		9,852,179	9,852,179
Legal reserve	15	1,476,465	1,275,541
General reserve	16	605,796	605,796
Foreign currency translation adjustments		(174,021)	316,510
Gain on sale of treasury shares		241,131	127,531
Retained earnings		7,665,769	10,037,464
		<u>30,542,319</u>	<u>33,090,021</u>
Treasury shares	17	(2,508,975)	(2,839,375)
		<u>28,033,344</u>	<u>30,250,646</u>
		<u>94,580,132</u>	<u>75,892,824</u>


Khalaf Ahmad Al-Khalaf
Chairman

Ghazi Fahad Al-Nafisi
Vice Chairman


Waleed Jaber Hadeed
Executive Managing Director

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2002

	Note	2002 KD	2001 KD
Sales		274,951,705	186,400,011
Cost of sales		(270,228,645)	(178,572,106)
Gross profit		<u>4,723,060</u>	<u>7,827,905</u>
Net interest relating to oil marketing operations		389,603	169,010
Net results of oil marketing operations		<u>5,112,663</u>	<u>7,996,915</u>
General and administrative expenses		(656,456)	(828,251)
Staff costs		(1,521,689)	(1,713,646)
Depreciation	10	(86,641)	(100,424)
Operating profit		<u>2,847,877</u>	<u>5,354,594</u>
Investment (loss) / income	18	(820,875)	302,992
Share in results of associates and joint ventures		19,293	250,456
Other income	19	94,946	224,376
Finance charges	20	(132,003)	(310,163)
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Directors' fees		<u>2,009,238</u>	<u>5,822,255</u>
Contribution to KFAS		(18,083)	(116,445)
National Labour Support Tax		(9,926)	(11,170)
Directors' fees		(45,000)	(100,000)
Net profit for the year		<u>1,936,229</u>	<u>5,594,640</u>
Earnings per share (fils)	21	<u>18.87</u>	<u>54.92</u>

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2002

Note	2002 KD	2001 KD
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year before KFAS, NLST and Directors' fees	2,009,238	5,822,255
Adjustments for:		
Depreciation	86,641	100,424
Interest expense	1,023,176	1,711,984
Investment loss / (income)	820,875	(302,992)
Share in results of associates and joint ventures	(19,293)	(250,456)
Interest income	(1,354,508)	(1,728,806)
Provision for staff indemnity	89,185	72,789
Operating profit before working capital changes	2,655,314	5,425,198
(Increase)/decrease in trade and other receivables	(19,708,248)	1,463,590
Decrease/(increase) in inventory	2,391,110	(2,391,110)
Increase/(decrease) in trade and other payables	9,539,419	(4,855,135)
Cash used in operations	(5,122,405)	(357,457)
Payment to KFAS	(116,445)	(152,209)
Directors' fees paid	(90,000)	(160,000)
National Labour Support Tax paid	(11,170)	-
Payments of staff indemnity	(20,954)	(46,108)
Net cash used in operating activities	(5,360,974)	(715,774)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(20,504)	(61,042)
Purchase of investments held for trading	(148,948)	-
Investment in associates	(1,755,859)	-
Investment in joint ventures	(1,920,567)	-
Short-term loan	(271,004)	(76,915)
Dividends received	502,346	212,669
Interest received	821,596	911,056
Other loans	(158,972)	(104,549)
Net cash (used) / from investing activities	(2,951,912)	881,219
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in due to banks	11,656,006	6,712,842
Dividends paid	(4,107,000)	(5,093,750)
Proceeds from sale of treasury shares	444,000	-
Interest paid	(1,237,616)	(1,373,269)
Net cash from financing activities	6,755,390	245,823
Effect of foreign currency translation	20,398	(44,248)
Net (decrease) / increase in cash and cash equivalents	(1,537,098)	367,020
Cash and cash equivalents at beginning of the year	4,160,203	3,793,183
Cash and cash equivalents at end of the year	2,623,105	4,160,203

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2002

	Share capital KD	Share premium KD	Legal reserve KD	General reserve KD	Foreign currency translation adjustments KD	Gain on sale of treasury shares KD	Retained earnings KD	Treasury shares KD	Total KD
Balance at 1 January 2001	10,875,000	9,852,179	1,275,541	605,796	215,192	127,531	9,536,574	(2,839,375)	29,648,438
Dividends paid - 2000	-	-	-	-	-	-	(5,093,750)	-	(5,093,750)
Net exchange differences	-	-	-	-	101,318	-	-	-	101,318
Net profit for the year	-	-	-	-	-	-	5,594,640	-	5,594,640
Balance at 31 December 2001	10,875,000	9,852,179	1,275,541	605,796	316,510	127,531	10,037,464	(2,839,375)	30,250,646
Dividends paid - 2001	-	-	-	-	-	-	(4,107,000)	-	(4,107,000)
Sale of treasury shares	-	-	-	-	-	113,600	-	330,400	444,000
Net exchange differences	-	-	-	-	(490,531)	-	-	-	(490,531)
Net profit for the year	-	-	-	-	-	-	1,936,229	-	1,936,229
Transfer to reserves	-	-	200,924	-	-	-	(200,924)	-	-
Balance at 31 December 2002	10,875,000	9,852,179	1,476,465	605,796	(174,021)	241,131	7,665,769	(2,508,975)	28,033,344

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

1. FORMATION AND ACTIVITIES

Independent Petroleum Group Company S.A.K. (the "Parent Company") was established on 11 September 1976 as a Closed Kuwaiti Shareholding Company. The Company was listed on the Kuwait Stock Exchange on 10 December 1995.

The main activities of the Group are the trading of crude oil and petroleum products; strategic investments and joint ventures in petroleum storage facilities, terminal and distribution facilities, and other activities related to the petroleum industry; and consulting services in the petroleum and petrochemicals fields.

The registered address of the Parent Company is P.O. Box 24027, Safat 13101, State of Kuwait.

At 31 December 2002 the Group had 54 employees (31 December 2001: 51 employees).

The consolidated financial statements were authorized for issue by the Chairman on behalf of the Board of Directors on 20 January 2003. The Shareholders' General Assembly has the power to amend these financial statements after issuance.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of investments held for trading and investments available for sale.

b) Basis of consolidation

The consolidated financial statements include the financial statements of the Parent Company, the consolidated financial statements of its wholly owned subsidiary IPG Ltd., Bahamas, and the financial statements of its wholly owned subsidiary IPG (Luxembourg) S.A. The consolidated financial statements of IPG Ltd., Bahamas incorporate its financial statements and the financial statements of its two wholly owned subsidiaries IPG of Kuwait Ltd. and IPG International Ltd., both registered in the United Kingdom. Subsidiaries are those enterprises controlled by the Parent Company.

Control exists when the Parent Company 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 subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The Parent Company also has a wholly owned dormant subsidiary registered in Singapore, Independent Petroleum Group (Asia) Pte. Ltd. The subsidiary's financial statements are immaterial for consolidation purposes.

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts with banks, short-term deposits with an original maturity of three months or less.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

d) Investments

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. After initial recognition, investments are remeasured at fair value.

For investments traded in organised financial markets, fair value is determined by reference to quoted bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same or is based on the expected discounted cash flows or the underlying net asset base of the investment. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses.

Gains or losses arising from changes in the fair value of investments held for trading are included in the statement of income in the period in which they arise.

Gains or losses arising from changes in fair value of investments available for sale are recognised directly in equity in the "fair value reserve" until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognised in the "fair value reserve" is included in the consolidated statement of income.

Trade date and settlement date accounting

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

e) Trade receivables

Trade and other receivables are stated at their face value less impairment losses or provision for doubtful debts.

f) Inventory

Inventory of oil stocks is valued at the lower of cost or net realizable value. Cost is determined on a weighted average basis. Net realizable value is the selling price in the ordinary course of business, less the cost of completion, marketing and distribution.

g) Investment in joint ventures

The Group accounts for joint ventures, defined as contractual arrangements to undertake an economic activity which is subject to joint control, under the equity method of accounting. Long term subordinated loan provided by the Group to the joint venture is accounted as part of the investment.

h) Investment in associates

Associated companies are those in which the Group has significant influence, but not overall control over the financial and operating policy decisions of the investee. The Group's investment in associates is accounted for under the equity method of accounting, i.e. on the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in value and the consolidated statement of income reflects the Group's share of the results of operations of the associate.

i) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use. Depreciation is calculated based on the estimated useful lives of the applicable assets. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacements of assets (including improvements to leasehold property) are capitalised. Gains and losses on retirement or disposal of assets are included in the consolidated statement of income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

Freehold land is not depreciated. Other assets are depreciated as follows:

Buildings	20 years
Vehicles and equipment	3 -5 years
Office furniture	5 years
Leasehold improvements	Straight-line basis over remainder of lease

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefit from items of property and equipment.

j) Provision for staff indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of the final obligation.

k) Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (gain on sale of treasury shares) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. Any issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

l) Foreign currencies

The functional currency of the Parent Company is Kuwaiti Dinars ("KD"). Transactions denominated in foreign currencies are translated into KD at fixed exchange rates, which approximate average rates throughout the year. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Exchange differences are recognized in the consolidated statement of income. Assets and liabilities, both monetary and non-monetary of foreign subsidiaries are translated to Kuwaiti Dinars at the exchange rates prevailing at the balance sheet date. Operating results of such subsidiaries are translated at average rates of exchange for the subsidiary's period of operations. The resulting exchange differences are accumulated in a separate section of shareholders' equity until the disposal of the subsidiary.

m) Revenue recognition

Revenue from sales is recognized when delivery has taken place and transfer of risks and rewards has been completed. Interest is recognized on a time proportion basis that reflects the effective yield on the asset. Other revenues and expenses are recorded on the accrual basis.

n) Finance charges

Interest on borrowings is calculated on the accrual basis and is recognised in the consolidated statement of income in the period in which it is incurred.

o) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, investment, loans, accounts receivable, accounts payable and bank borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, and gains and losses relating to a financial instruments classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

p) Derivatives

In the normal course of business, the Group enters into commodity swap and future contracts. These derivatives are initially recognised as an asset or liability on the commitment date. These contracts are treated as derivatives held for trading purposes and are stated at fair value with any resultant gain or loss recognised in the consolidated statement of income.

q) Impairment of assets

The carrying amounts of the Group's assets, other than inventory, are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognized in income whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of the Group's loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rates inherent in the asset. Receivables and loans with a short duration are not discounted. The recoverable amount of the Group's trading investments and investments available-for-sale is their fair value. The recoverable amount of other assets is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in income.

r) Payables

Trade and other payables are stated at cost.

s) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

3. CASH AND CASH EQUIVALENTS

	2002	2001
	KD	KD
Cash on hand and at banks	1,790,399	885,321
Call accounts and time deposits	832,706	3,274,882
	<u>2,623,105</u>	<u>4,160,203</u>

Short-term deposits yield interest at an effective weighted average rate of 0.84% per annum (2001: 3.55% per annum).

4. INVESTMENTS HELD FOR TRADING

	2002	2001
	KD	KD
Managed portfolios held for trading	16,862,612	17,870,132
Quoted securities held for trading	4,579,464	5,254,701
	<u>21,442,076</u>	<u>23,124,833</u>

The managed portfolios have been provided as collateral for a guarantee issued against US\$ bank facilities (see note 11).

5. TRADE AND OTHER RECEIVABLES

	2002	2001
	KD	KD
Trade receivables	60,821,827	40,702,499
Prepaid expenses	280,840	164,594
Staff receivables	-	4,173
Refundable deposits and taxes	63,976	55,962
Unrealised gain on futures and swaps	72,885	9,999
Other	34,966	96,107
	<u>61,274,494</u>	<u>41,033,334</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

6. OTHER LOANS

	2002	2001
	KD	KD
Al-Manar Plastic Product Company Ltd.	55,978	57,042
Arabtank Terminal Limited	264,585	104,549
	<u>320,563</u>	<u>161,591</u>

The loan of Saudi Riyals 700,000 to Al-Manar Plastic Product Company Ltd. carries interest of 8% per annum (2001 : 8% per annum).

The Group has provided a long-term interest free subordinated loan to Arabtank Terminals Ltd., Saudi Arabia (see note 9).

7. INVESTMENTS AVAILABLE FOR SALE

	Percentage ownership	2002	2001
		KD	KD
Investment in Al-Manar Plastic Product Co. Ltd.	10%	105,457	105,457
Investment in Fujairah tank terminal project	10%	983,828	983,828
Investment in Asia Petroleum Ltd., Pakistan (APL)	12.5%	1,137,188	1,137,188
Investment in Commercial Real Estate Company	1.25%	262,500	262,500
		<u>2,488,973</u>	<u>2,488,973</u>

It was not possible to reliably measure the fair value of the above unquoted securities since there is no active market, accordingly they are stated at cost. The Group has pledged all its shares in APL in favour of a financial institution in connection with a loan granted by them to APL.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

8. INVESTMENT IN JOINT VENTURES

	2002	2001
	KD	KD
Investment in D&K Shipping Limited, Bermuda	530,002	303,761
Subordinated long-term loan to D&K Shipping	1,101,027	673,027
	<u>1,631,029</u>	<u>976,788</u>
Uniterminals Ltd., Lebanon	1,384,964	-
	<u>3,015,993</u>	<u>976,788</u>

D&K Shipping Ltd.

In 1998, the Group established an equal ownership joint venture in D&K Shipping Limited, Bermuda with a shipping company which is a wholly owned subsidiary of Emirates National Oil Company (ENOC) for the purpose of owning, operating and chartering a fleet of petroleum products and crude oil tankers. The Group has provided the joint venture with a long-term interest free subordinated loan which is repayable only upon fulfilment of the joint venture's commitments with one of its bankers.

During 2002, the Group has provided an additional long-term interest free subordinated loan of KD 428,000 which is also repayable only upon fulfilment of the joint venture's commitments with one of its bankers. The Group's share in the net assets and results of the joint venture included in the group's consolidated financial statements is based on the joint venture's accounts for the eleven month period ended 30 November 2002 (2001: 12 month period) is as follows:

	2002	2001
	KD	KD
Marine vessels	1,532,342	1,751,047
Current assets	931,732	397,651
Current liabilities	(209,491)	(255,973)
Long-term loan	(623,554)	(915,937)
Net assets	<u>1,631,029</u>	<u>976,788</u>
Operating income	613,165	761,702
Other income	34,085	12,902
Loan interest and other expenses	(421,009)	(524,148)
Net profit for the period/year	<u>226,241</u>	<u>250,456</u>

Uniterminals Ltd.

During the year, the Group invested KD 1,492,567 in Uniterminals Ltd., Lebanon ("Uniterminals") representing 50% of the investee's issued and outstanding share capital. Uniterminals is involved in the storage, distribution and sale of petroleum products in Lebanon.

The Group's share in the net assets and results of the joint venture included in Groups consolidated financial statements is based on the joint venture's accounts for the eleven month period ended 30 November 2002 is as follows:

	2002
	KD
Total assets	6,344,133
Current liabilities	(3,334,836)
Long-term debt	(1,624,333)
Net assets	<u>1,384,964</u>
Operating profit	83,436
Other income	63,795
Loan interest and other expenses	(254,834)
Net loss for the year	<u>(107,603)</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

9. INVESTMENT IN ASSOCIATES

	2002	2001
	KD	KD
Independent Petroleum Terminal SARL (IPT)	44,089	-
Arab Tank Terminals Ltd (ATT)	2,293,970	681,546
	<u>2,338,059</u>	<u>681,546</u>

During 2002, the Group invested KD 99,345 in ENOC Bunkering (Fujairah) L.L.C. representing 24% of the investee's issued and outstanding share capital. ENOC Bunkering is a newly established company that will supply fuel oil to vessels in the Gulf and Arabian sea. The Group had recognised the full amount invested of KD 99,345 as its share of loss from the associate. The management believes that the associate, once established in the market will be able to recover from the loss.

The Group also invested KD 44,089 in Independent Petroleum Terminal SARL ("IPT") representing a 10% advance on its total capital commitment to the Company. IPT is a company under incorporation for the purpose of constructing and operating petroleum storage tanks and terminals in Mozambique.

During the year the Group acquired an additional 50% of the outstanding shares of Arab Tank Terminals Ltd., Saudi Arabia ("ATT"), increasing the Group's holding to 73%. The Group has entered into an agreement to sell a share of its holding to ENOC Dubai which will ultimately reduce its investment to 36.5%. The investment is carried at cost as ATT commenced its operations in June 2002.

10. PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture & equipment	Motor vehicles	Leasehold improvements	Total
	KD	KD	KD	KD	KD	KD
Cost						
As at 1 January 2002	543,582	892,464	367,852	84,427	60,394	1,948,719
Additions	-	-	20,504	-	-	20,504
Disposals	-	-	-	(12,732)	-	(12,732)
Currency translation effects	-	-	(7,716)	(2,121)	(1,517)	(11,354)
As at 31 December 2002	<u>543,582</u>	<u>892,464</u>	<u>380,640</u>	<u>69,574</u>	<u>58,877</u>	<u>1,945,137</u>
Accumulated depreciation						
As at 1 January 2002	-	758,593	304,685	59,472	28,438	1,151,188
Charge for the year	-	44,623	17,432	19,851	4,735	86,641
Disposals	-	-	-	(12,732)	-	(12,732)
Currency translation effects	-	-	(6,366)	(1,764)	(780)	(8,910)
As at 31 December 2002	<u>-</u>	<u>803,216</u>	<u>315,751</u>	<u>64,827</u>	<u>32,393</u>	<u>1,216,187</u>
Net book value						
As at 31 December 2002	<u>543,582</u>	<u>89,248</u>	<u>64,889</u>	<u>4,747</u>	<u>26,484</u>	<u>728,950</u>
As at 31 December 2001	<u>543,582</u>	<u>133,871</u>	<u>63,167</u>	<u>24,955</u>	<u>31,956</u>	<u>797,531</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

11. DUE TO BANKS

Due to banks represents the credit facilities provided by a subsidiary company's bankers in Kuwaiti Dinars and United States Dollars. These facilities carry an effective interest rate of approximately 2.38% p.a. which is repriced every month based on LIBOR. A portion of the US\$ facilities amounting to KD 12,896,990 (US\$ 43 Million) has been extended by two major European banks against a guarantee provided by the Parent Company's portfolio manager, with the portfolio being provided as collateral for the guarantee (see note 4).

12. TRADE AND OTHER PAYABLES

	2002	2001
	KD	KD
Trade payables	21,342,425	12,793,560
Accrued expenses	6,005,566	6,253,052
Accrued staff leave	168,159	146,337
Kuwait Foundation for the Advancement of Sciences	18,083	116,445
Other	1,354,965	344,431
	<u>28,889,198</u>	<u>19,653,825</u>

13. PROVISION FOR STAFF INDEMNITY

	2002	2001
	KD	KD
Balance at beginning of the year	435,211	408,530
Charge for the year	89,185	72,789
Payments made during the year	(20,954)	(46,108)
Balance at end of the year	<u>503,442</u>	<u>435,211</u>

14. SHARE CAPITAL

Authorized, issued and fully paid capital consists of 108,750,000 shares of 100 fils each.

15. LEGAL RESERVE

In the current year the Group has reclassified share premium amounting to KD 9,852,179, which was previously included under legal reserve. As required by the Commercial Companies' Law and the Parent Company's Articles of Association, 10% of the profit for the year before appropriations has been transferred to legal reserve. The parent company may resolve to discontinue such annual transfers when this reserve reaches a minimum of 50% of share capital. Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5% of the share capital in years when retained earnings are not sufficient for payment of such dividend.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

16. GENERAL RESERVE

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year before appropriations is to be transferred to the general reserve. This transfer was stopped by an ordinary resolution adopted in the general assembly as recommended by the Board of Directors. There are no restrictions on distributions from the general reserve.

17. TREASURY SHARES

	2002	2001
Number of shares	6,075,000	6,875,000
Percentage of issued shares	5.59%	6.32%
Market value (KD)	2,490,750	3,643,750

18. INVESTMENT INCOME

	2002	2001
	KD	KD
Changes in fair value of investments held for trading	(1,323,221)	90,323
Dividend income	502,346	212,669
	<u>(820,875)</u>	<u>302,992</u>

19. OTHER INCOME

	2002	2001
	KD	KD
Net foreign exchange (loss) / gain	(84,986)	67,012
Interest income	39,709	128,436
Miscellaneous income	140,223	28,928
	<u>94,946</u>	<u>224,376</u>

20. FINANCE CHARGES

	2002	2001
	KD	KD
Bank charges	34,852	29,539
Interest expense	97,151	280,624
	<u>132,003</u>	<u>310,163</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

21. EARNINGS PER SHARE

There are no potentially dilutive ordinary shares. Earnings per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year, as follows:

	2002	2001
	KD	KD
Net profit for the year	1,936,229	5,594,640

	Shares	Shares
Number of issued shares	108,750,000	108,750,000
Weighted average number of treasury shares	(6,134,725)	(6,875,000)
Weighted average number of shares outstanding	102,615,275	101,875,000
Earnings per share (fils)	18.87	54.92

22. PROPOSED DIVIDENDS

The directors propose a cash dividend of 20 fils per share (2001:40 fils per share). This proposal is subject to the approval of the shareholders' Annual General Assembly.

23. RELATED PARTY TRANSACTIONS

These represent transactions with related parties in the normal course of business. The terms of these transactions are on an arm's length basis in accordance with the prices prevailing at the market. The balances included in the Group's consolidated financial statements are as follows:

	2002	2001
	KD	KD
Sales	63,863,923	-
Purchases	318,713	-
Trade and other receivables	5,748,445	-
Trade and other payables	898,850	-
Other and short-term loans	668,482	238,506

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2002

24. SEGMENT INFORMATION

The Group operates in one industry segment, the trading of crude oil and petroleum products. Information about the Group's geographical segments is summarised as follows:

	2002			2001		
	Africa and Middle East	South America	Asia and Far East	Africa and Middle East	South America	Asia and Far East
	KD	KD	KD	KD	KD	KD
Sales	219,214,166	3,891,829	51,845,710	157,637,336	3,652,984	25,109,691
Segment result	4,969,995	11,999	130,669	7,479,184	(16,984)	534,715
Unallocated corporate expenses			(2,264,786)			(2,642,321)
Operating profit			2,847,877			5,354,594
Other information:						
Segment assets	57,905,346		57,905,346	38,586,937		38,586,937
Unallocated corporate assets			36,674,786			37,305,887
Total assets			94,580,132			75,892,824
Segment liabilities	11,865,114	5,213,555	4,263,756	12,793,560		12,793,560
Unallocated corporate liabilities			45,204,363			32,848,618
Total liabilities			66,546,788			45,642,178

Depreciation expense, capital expenditure and non-cash expenses are mainly related to unallocated corporate assets. The results of the Group's associates and joint ventures are included entirely in the Africa and Middle East segment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

25. FINANCIAL INSTRUMENTS - FAIR VALUE AND RISK MANAGEMENT

In the normal course of its business, the Group uses primary financial instruments such as cash and cash equivalents, short-term borrowings, loans, equity and other investments, receivables and payables and as a result, is exposed to the risks indicated below. The Group also makes use of derivative financial instruments such as commodity futures and swaps.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The financial instruments which potentially subject the Group to credit risk consist of current and call accounts at banks, time deposits, loans, investments and trade and other receivables. The Group places its cash and investments with various reputed financial institutions and avoids credit concentration. In regard to the concentration of credit risk of trade and other receivables, the Group's deals are usually with oil majors of high credit rating, and governmental institutions.

Foreign currency

The Group incurs foreign currency risk on purchases and sales that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

Interest rate risk

Financial instruments are subject to the risk of changes in value due to changes in interest rates. The effective interest rates and the periods in which interest bearing financial assets and liabilities are repriced or mature are indicated in the respective notes. Call accounts and time deposits carry an effective interest rate of approximately 0.84% p.a. (2001:3.55% p.a) and mature within 3 months from the date of deposit.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual commodity or factors affecting all commodities traded in the market. The Group manages this risk by diversifying its investments and using professional advisors.

Other risk

Other risks are mainly represented by liquidity and cash flow risks.

Liquidity risk arises from the possibility that the Group may not be able to settle its obligations as they become due. To manage this risk, the Group regularly monitors the maturity of its payables and its cash position.

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. At present, the Group has no significant cash flow risk.

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Receivables, payables and short-term borrowings

The carrying amounts approximate fair values because of the short maturity of such instruments.

Cash and bank balances, deposits and investments

The carrying amounts of cash and bank balances and deposits approximate fair values. The fair value of quoted securities is based on market quotations. The Group's management did not have access to relevant information to be able to reliably measure the fair value of the unquoted securities that are available-for-sale. Accordingly, the carrying amount of these investments is based on their cost. In the opinion of management, the fair value of these investments is not significantly different from their carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2002

Future and swap contracts

The fair value of the Group's open futures and swap contracts are the estimated amounts that the Group would receive or pay to terminate the contracts at the balance sheet date. The estimated fair values of these contracts are as follows:

		Notional amount		Fair value	
		2002	2001	2002	2001
		KD	KD	KD	KD
Swap contracts	Buy	-	180,750	-	171,328
	Sell	-	1,218,718	-	1,199,297

26. CONTINGENT ASSETS

a) The Group has lodged a claim with the Public Authority for Assessment of Compensation for damages resulting from the Iraqi aggression (PAAC), which was approved and sent to the UNCC, for KD 5,760,972. The accompanying consolidated financial statements do not include amounts related to these potential claims. This amount will be included in the consolidated statement of income as an extraordinary item, if and when received.

b) In 1999, the Group entered in to a contribution agreement for the transfer of shares of Petroplus Refining B.V., Rotterdam and Eurogulf Petroleum Limited, Malta with Petroplus International N.V. (PPI). The effective date of the transfer was 1 October 1999. The total consideration for the acquisition of the shares by PPI was US\$ 6,600,000 of which US\$ 4,800,000 was paid through the issuance of shares in PPI and the remaining US\$ 1,800,000 is contingent consideration, which shall be paid annually over a maximum period of 7 years ending 31 December 2009, depending on the after tax profits of the company.

Notes to the Consolidated Financial Statements

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27. COMMITMENTS AND CONTINGENT LIABILITIES

	2002	2001
	KD	KD
Capital commitments for purchase of investments:		
Arabtank Terminals Limited Phase II	2,494,000	-
Inpetro SARL	1,003,000	-
Djibouti Tank Terminals	341,000	-
Uniterminals Ltd., Lebanon (50% equity)	-	1,538,300
ENOC Bunkering (Fujairah) L.L.C. (24% equity)	-	101,220
	<u>3,838,000</u>	<u>1,639,520</u>
Contingent liabilities:		
Letters of indemnity	1,029,799	1,056,340
Letters of guarantee and bid bonds	9,222,373	6,645,678
Letters of credit	21,619,884	8,806,368
	<u>31,872,056</u>	<u>16,508,386</u>

A law suit has been filed against the Parent Company by a local bank in relation to an amount due under letters of credit issued by the bank in favour of a supplier, but not paid by the bank to the supplier, concerning shipments of petroleum products purchased by the Group during 1990. The first court order ruled in favour of the bank during May 2002 and has been strongly appealed by the Parent Company. Based on the opinion of the Parent Company's legal consultant, management is confident of a positive outcome of the appeal. The Group has accrued for a major portion of the amount since 1990 to date and the contingent liability representing the difference in the accrued interest amounts to approximately KD 1.2 Million.

28. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.