



المجموعة البترولية المستقلة ش.م.ك.



التقرير السنوي ٢٠٠٣

المجموعة البترولية المستقلة ش.م.ك. التقرير السنوي ٢٠٠٣

INDEPENDENT PETROLEUM GROUP s.a.k. ANNUAL REPORT 2003



INDEPENDENT PETROLEUM GROUP s.a.k



ANNUAL REPORT 2003

INDEPENDENT PETROLEUM GROUP COMPANY
S.A.K. (CLOSED) AND SUBSIDIARIES

INDEPENDENT PETROLEUM GROUP COMPANY S.A.K.

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المجموعة البترولية المستقلة ش.م.ك.

هاتف (٨ خطوط) ٥٣١٢٨٤٠-٧ (٩٦٥) ، فاكس : ٥٣٣١٤٧٢ (٩٦٥)

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تلکس : ٢٢٧٦٦/٤٦٠٦٨ IPGROUP

INDEPENDENT PETROLEUM GROUP COMPANY
S.A.K. (CLOSED) AND SUBSIDIARIES



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



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

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. Shammass	Managing Director - Marketing
Yusuf I. Alghanim	Director
Ali M. Al-Radwan	Director
Dirrar Y. Alghanim	Director
Ali Rashid Al-Bader	Director

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Message to the Shareholders

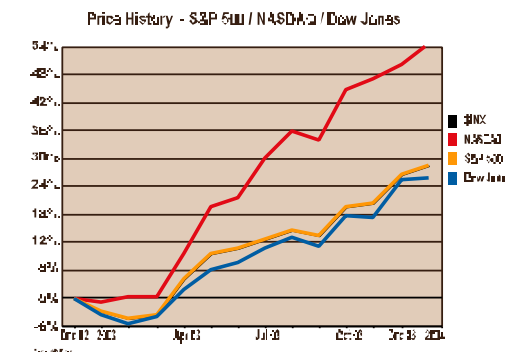
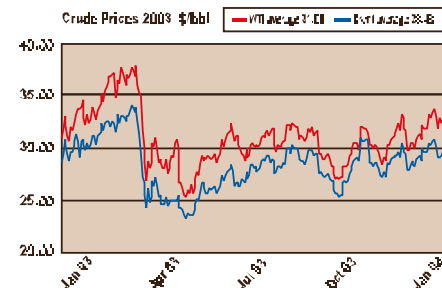
Dear Shareholders,

The Board of Directors is pleased to present to you the annual report on the company's operations for the year 2003. The most important event of 2003 was the regime change in Iraq, the political and economic consequences of which are still significant on both regional and global levels.

The US economy and the US money markets have witnessed their worst three consecutive years (2000, 2001 and 2002) since the Great Depression, which occurred seventy years ago. These three years witnessed a global feeling of pessimism. The situation has changed radically since the events in Iraq with the US money markets regaining their confidence. The DOW JONES index rose by 25%, the NASDAQ index increased by around 50%, and the STANDARD& POORS index rose by around 40%. Optimism was reflected on other International financial markets, where the MSCI global index rose by around 29%, its best results since 1986.

Equally, the political instability surrounding the events in Iraq affected the international oil markets causing an increase in oil prices. The average crude price of American crude WTI (West Texas Intermediate) during 2003 reached USD 31.00 per barrel, i.e. around USD 4.84 higher than the price average of 2002, setting the highest average record over the past twenty years. Similarly, the average BRENT crude price reached USD 28.48 per barrel during 2003, with an approximate increase of USD 3.45, over its average for the year 2002, and slightly lower than its highest average USD 28.53 reached by BRENT in the year 2000. The events of 2003 also affected the average price of OPEC's crude basket, which reached USD 28.12 per barrel, slightly higher than the price ceiling fixed by OPEC at USD 28.00.

In spite of the high uncertainty of both the political and economic situations in 2003, IPG was able to make many distinctive achievements. The most important of these is the resumption of commercial relations with Iraq's State Oil marketing Organization (SOMO) in the 3rd quarter of 2003, where the Group started to supply SOMO with Gasoline, Kerosene and Diesel, and to receive Fuel Oil in return. Moreover, the Group was able to reach a final and comprehensive settlement with both SOMO and the Central Bank of Iraq, regarding the amounts claimed by SOMO for the oil shipments provided by them during the months of July and August of 1990. This settlement was submitted to the Kuwaiti Court of High Appeal, which is reviewing the case filed by the National Bank Of Kuwait regarding the said shipments. Also, the Group has achieved a strategic goal by strengthening its cooperation with the Emirates National Oil Company (ENOC) through the formation of a joint venture (D&K Petroleum LLC), which is owned equally by both parties. This new company commenced its operations early 2003, concentrating on all Fuel Oil sales by IPG and ENOC. IPG hopes that the opening of the Iraqi oil market shall provide many opportunities for this new company in both commercial trading as well as investment in the oil industry.



Message to the Shareholders

The net financial result for 2003 was a net profit of about KD 4.6 Million, which is equivalent to 42% of the Group's paid up capital of KD 10.875 Million, and which represents an increase of 142% over the 2002 net profit of KD 1.9 Million.

Moreover, the significant improvement in the International financial markets, particularly in the last quarter of the year, led to a substantial increase in the total revenues from IPG's overall investments, including its portfolio; the increase amounted to KD 3.3 Million, compared to a loss of KD 0.8 Million in 2002.

As for the marketing operations in 2003, the Group has achieved its highest volume ever in total sales, reaching 5.3 Million tons compared to 4.7 Million tons in 2002. This increase is primarily due to the additional Fuel Oil sales made by D&K Petroleum LLC to ENOC Bunkering Fujairah LLC, (EBFL), of which IPG owns a 24% share.

During 2003, the Group achieved total sales amounting to KD 210 Million, with net results of marketing operations equal to KD 4.6 Million, slightly lower than KD 5.1 Million in 2002. This decrease is mainly due to the highly competitive oil markets and the restructuring of the Fuel Oil sales that are now included under the new venture (D&K Petroleum LLC). IPG's marketing results exclude the results of the operations of D&K Petroleum LLC due to their incompleteness.

The year 2003 witnessed an increase in the activities of IPG regional offices in Singapore and London with the employment of a new manager in London and an additional oil trader in each office.

The solid commercial relations with other major and national oil companies in the region have continued, and several contracts have been signed to supply IPG with petroleum products from these companies which include (Aramco) Saudi Arabia, (Bapco) Bahrain, (SOMO) Iraq, (Qatar Petroleum) Qatar and (NIOC) Iran.

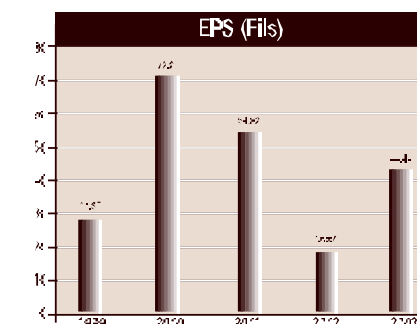
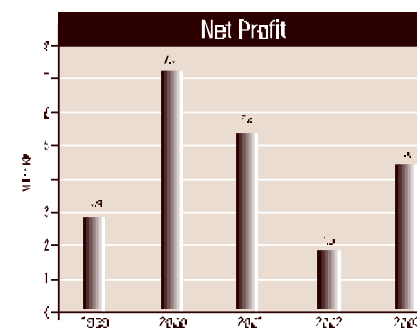
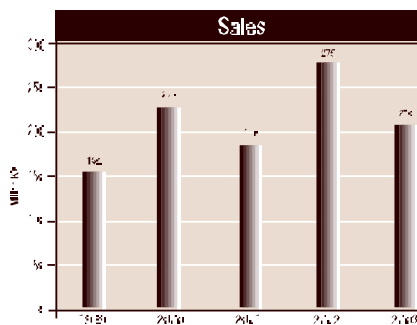
On the other hand, IPG has made consistent efforts, in the development of oil related and other projects that complement its commercial activities, toward ensuring stable long-term revenues for the Group. In this respect several accomplishments have been achieved during 2003.

The following is a brief summary:

First: Operating Projects:

1. Vopak Horizon Fujairah Ltd. (VHFL) U.A.E (IPG's Share 10%):

The company performed exceptionally throughout the year. The completion of phase (IV) of the project in August 2003 raised the terminal's storage capacity from 812 Thousand Cubic Meters to 1.1 Million Cubic Meters, i.e a 37% increase, for a total cost of USD 19.6 Million. Currently, the company is involved in ongoing negotiations to form a new venture with other parties for the construction of a potential petroleum terminal project in (Ain Al-Sokhna, Egypt).



Message to the Shareholders

2. Arab Tank Terminals Ltd, (ATT), Kingdom Of Saudi Arabia- KSA (IPG's Share 36.5%):

The first phase of the project went well resulting in 100% output. The project consists of storage tanks for chemical products with a capacity of 13.5 Thousand Cubic Meters. This led the Partners to approve expanding the project's chemical storage capacity by constructing five additional tanks with total capacity of 5.8 Thousand Cubic Meters, for a total cost of USD 3 Million. The additional tanks are expected to operate by the end of August 2004. Moreover the official authorities in the Kingdom of Saudi Arabia have approved granting the company Bonded Storage Status in Yanbu, under the Free Zones norms. The engineering designs and all related studies of the project's second phase, which involve the construction of new storage tanks of Petroleum products, are being finalized. It is expected to award the EPC (Engineering, procurement, and construction) contract by second half of 2004.

3. Asia Petroleum Ltd (APL) Pakistan (IPG's Share 12.5 %):

The project continued to perform well, yielding a cash dividend of 45% for the year [equivalent to KD 261,000], which ended on June 30th 2003.

4. D&K Shipping Ltd. UAE (IPG's Share 50%):

The additional four tankers, which joined the company's fleet of tankers in 2002, achieved high performance due to the increased operational demand by ENOC Bunkering Fujairah, LLC (EBFL). IPG has maintained the charter of the tanker (Gulf Star) throughout 2003. Efforts continue, to add a very large tanker (VLCC) to the existing fleet, in order to meet its increasing operational requirements.

5. ENOC Bunkering Fujairah LLC, EBFL, UAE, (IPG's share 24%)

During 2003, the company had leased and added two Tankers to its existing fleet, where one will be utilized as a floating depot. By the end of 2003, the company's monthly average sales of Fuel Oil reached 183 Thousand Tons. Plans are underway to increase the monthly sales volume to 300 Thousand Tons by the end of 2004.

6. Uniterminals, Lebanon (IPG's share 50%)

The company has maintained good performance for the second year in a row, and recorded an exceptional increase in sales amounting to (75%), in comparison to 2002. In addition, revenues from the storing activities have risen by (94%). Currently, negotiations regarding the expansion of the storage operations and sales are underway between the company's owners, i.e. IPG and the Lebanese parties.

7. Al-Manar Plastic Products Co. Ltd. Kingdom Of Saudi Arabia- KSA (IPG's Share 10%):

The project operated at maximum capacity nearly throughout the year. Expansion plans are being explored.



Vopak Horizon Fujairah Ltd.



Arab Tank Terminals Ltd.



Asia Petroleum Ltd.



D&K Shipping Ltd.

Message to the Shareholders

Second : Projects in Progress:

1. Inpetro SARL (IPT) Beira -Mozambique (IPG's Share 30%):

The project's original Engineering designs have been reviewed due to the unexpected high capital cost, where the storage capacity has been amended from 132 Thousand Cubic Meters to 80 Thousand Cubic Meters. The re-bid process has been initiated and the (EPC) contract for the project is expected to be awarded during the 2nd Quarter of 2004.

2. Horizon Djibouti Holdings Ltd. Djibouti (IPG's Share 20%):

The terminal's total storage capacity of 236 Thousand Cubic Meters is designed for storing and handling petroleum products, LPG, Chemicals and Edible Oils. The terminal also has access to two jetties and contains a truck loading station. Site development works are near completion and the (EPC) contract was recently awarded. Construction works are expected to commence during the 1st Quarter of 2004, with the capital cost of the project estimated at USD 60 Million. The project is expected to be completed by the second quarter of 2005.

Staff And Administration:

During 2003, IPG continued its effort in recruiting the appropriate expertise to meet the growth of its various operations:

Seven (7) new employees joined the Marketing department, including the two regional offices in the UK and Singapore, two (2) employees in the Finance department, and one (1) employee in the Departments of Business Development, Information Technology, and Administration. The new staff recruitment has taken into consideration that acquiring national manpower is a priority for the company.

In the field of Information Technology (IT), the Group has not only purchased a comprehensive financial system, but also installed and implemented a new system for Imaging and Document management. Efforts continued throughout the year to develop and enhance various electronic equipments and related software.

In conclusion, the management wishes to extend its deepest gratitude to the shareholders for their valued trust and to the IPG team for their dedication and efforts, which have led to the achievement of good results for the year.

Board of Directors



ENOC Bunkering Fujairah LLC, EBFL



Uniterminals



Beira, Mozambique



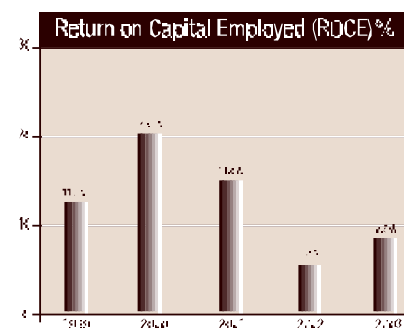
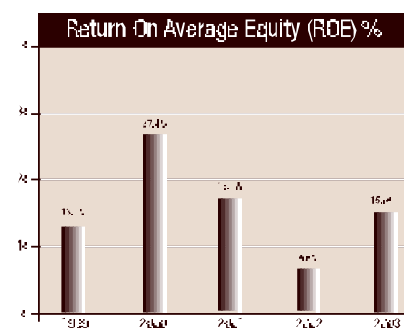
Djibouti site under development

Financial Highlights

Million KD, except per share amount and Ratio Data	1999	2000	2001	2002	2003
Sales	159	229	186	275	210
Gross Margin	2.8%	4.1%	4.2%	1.7%	2.0%
Operating Profit	2.1	6.7	5.4	2.8	1.8
Net Profit	3.0	7.3	5.6	1.9	4.6
Earning Per Share (Fils)	29.4	72.3	54.9	18.9	44.4
Price / Earning (Time)	8.68	6.64	9.83	21.73	11.93
Book Value (Fils)	231	294	297	273	295
Cash Dividend	20%	50%	40%	20%	30%
Dividend Yield	7.8%	10.4%	7.4%	4.9%	5.7%
Return on Average Capital Employed	11.5%	20.3%	14.0%	4.9%	8.5%
Total Assets	62.4	73.2	75.9	94.6	97.1
Shareholder Equity	23.6	29.6	30.3	28.0	30.4
Return on Average Equity	13%	27.4%	18.7%	6.6%	15.6%



Consolidated Financial Statements and Auditors' report for the year ended 31 December 2003



Consolidated Financial Statements and Auditors' report for the year ended 31 December 2003

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Auditors' Report

Deloitte & Touche

Al-Fahad & Co.
Salhia Complex
Gate 2, 4th Floor
P.O. Box 23049
Safat 13091
State of Kuwait

Albazie & Co.

Member of RSM International
Public Accountants
P.O.Box 2115, Safat 13022,
State of Kuwait.

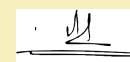
The Shareholders
Independent Petroleum Group Company S.A.K. (Closed)
State of Kuwait

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 2003, and the related consolidated statements of income, changes in shareholder's 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 2003 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



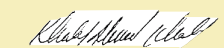
Dr. Shuaib A. Shuaib
License No 33-A
Albazie & Co.
Member of RSM International

14 January 2004

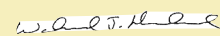
Consolidated Balance Sheet

As at 31 December 2003

ASSETS	Note	2003	2002
		KD	KD
Current assets			
Cash and cash equivalents	3	6,231,447	2,623,105
Investments held for trading	4	21,609,877	21,442,076
Trade and other receivables	5	59,322,653	61,274,494
Inventory		1,832,662	-
Short-term loans		342,432	347,919
		<u>89,339,071</u>	<u>85,687,594</u>
Non-current assets			
Other loans	6	315,503	320,563
Investments available for sale	7	2,393,446	2,488,973
Investment in joint ventures	8	2,842,985	3,015,993
Investment in associates	9	1,509,949	2,338,059
Property and equipment	10	687,479	728,950
		<u>97,088,433</u>	<u>94,580,132</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Due to banks	11	46,056,336	37,109,148
Proposed directors' fees		100,000	45,000
Trade and other payables	12	20,007,311	28,889,198
		<u>66,163,647</u>	<u>66,043,346</u>
Non-current liabilities			
Provision for staff indemnity	13	574,635	503,442
Shareholders' equity			
Share capital	14	10,875,000	10,875,000
Share premium		9,852,179	9,852,179
Legal reserve	15	1,947,676	1,476,465
General reserve	16	605,796	605,796
Foreign currency translation adjustments		(477,851)	(174,021)
Gain on sale of treasury shares		266,531	241,131
Retained earnings		9,707,195	7,665,769
		<u>32,776,526</u>	<u>30,542,319</u>
Treasury shares	17	(2,426,375)	(2,508,975)
		<u>30,350,151</u>	<u>28,033,344</u>
		<u>97,088,433</u>	<u>94,580,132</u>



Khalaf Ahmad Al-Khalaf
Chairman



Ghazi Fahad Al-Nafisi
Vice Chairman

Waleed Jaber Hadeed
Executive Managing Director

Consolidated Statement of Income

For the year ended 31 December 2003

	Note	2003	2002
		KD	KD
Sales		210,159,070	274,951,705
Cost of sales		(205,867,121)	(270,228,645)
Gross profit		4,291,949	4,723,060
Net interest relating to oil marketing operations	18	268,712	389,603
Net results of oil marketing operations		4,560,661	5,112,663
General and administrative expenses		(683,907)	(656,456)
Staff costs		(1,945,335)	(1,521,689)
Depreciation	10	(81,971)	(86,641)
Operating profit		1,849,448	2,847,877
Investment income / (loss)	19	3,318,236	(820,875)
Share in results of associates and joint ventures		(471,164)	19,293
Other income	20	74,932	94,946
Finance charges	21	(59,344)	(132,003)
Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Directors' fees		4,712,108	2,009,238
Contribution to KFAS		(42,409)	(18,083)
National Labour Support Tax		(3,562)	(9,926)
Directors' fees		(100,000)	(45,000)
Net profit for the year		<u>4,566,137</u>	<u>1,936,229</u>
Earnings per share (fils)	22	<u>44.44</u>	<u>18.87</u>

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2003

Consolidated Statement of changes in Shareholders' Equity

For the year ended 31 December 2003

	Share capital	Share premium	Legal reserve	General reserve	Foreign currency translation adjustments	Gain on sale of treasury shares	Retained earnings	Treasury shares	Total
	KD	KD	KD	KD	KD	KD	KD	KD	KD
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 legal reserve	-	-	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
Dividends paid - 2002	-	-	-	-	-	-	(2,053,500)	-	(2,053,500)
Sale of treasury shares	-	-	-	-	-	25,400	-	82,600	108,000
Net exchange differences	-	-	-	-	(303,830)	-	-	-	(303,830)
Net profit for the year	-	-	-	-	-	-	4,566,137	-	4,566,137
Transfer to legal reserve	-	-	471,211	-	-	-	(471,211)	-	-
Balance at 31 December 2003	10,875,000	9,852,179	1,947,676	605,796	(477,851)	266,531	9,707,195	(2,426,375)	30,350,151

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

	Note	2003 KD	2002 KD
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before KFAS, NLST and Directors' fees		4,712,108	2,009,238
Adjustments for:			
Depreciation		81,971	86,641
Interest expense		1,443,137	1,023,176
Investment (income) / loss		(3,318,236)	820,875
Share in results of associates and joint ventures		471,164	(19,293)
Interest income		(1,753,776)	(1,354,508)
Gain on disposal of property and equipment		(2,140)	-
Provision for staff indemnity		87,824	89,185
Operating profit before working capital changes		1,722,052	2,655,314
Decrease / (increase) in trade and other receivables		2,918,782	(19,708,248)
(Increase) / decrease in inventory		(1,832,662)	2,391,110
(Decrease) / increase in trade and other payables		(8,657,532)	9,539,419
Cash used in operations		(5,849,360)	(5,122,405)
Payment to KFAS		(18,083)	(116,445)
Directors' fees paid		(45,000)	(90,000)
National Labour Support Tax paid		(9,926)	(11,170)
Payments of staff indemnity		(16,631)	(20,954)
Net cash used in operating activities		(5,939,000)	(5,360,974)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(41,630)	(20,504)
Proceeds from disposal of property and equipment		2,140	-
Purchase of investments held for trading		-	(148,948)
Proceeds from sale of investments held for trading		2,381,134	-
Proceeds from disposal of investments available for sale		95,527	-
Investment in associates		(579,751)	(1,755,859)
Proceeds from disposal of investment in associates		554,976	-
Investment in joint ventures		(12,055)	(1,920,567)
Short-term loans		5,487	(271,004)
Dividends received		438,610	502,346
Interest received		786,835	821,596
Other loans		5,060	(158,972)
Net cash from / (used in) investing activities		3,636,333	(2,951,912)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in due to banks		8,947,188	11,656,006
Dividends paid		(2,053,500)	(4,107,000)
Proceeds from sale of treasury shares		108,000	444,000
Interest paid		(1,118,670)	(1,237,616)
Net cash from financing activities		5,883,018	6,755,390
Effect of foreign currency translation		27,991	20,398
Net increase / (decrease) in cash and cash equivalents		3,608,342	(1,537,098)
Cash and cash equivalents at beginning of the year		2,623,105	4,160,203
Cash and cash equivalents at end of the year	3	6,231,447	2,623,105

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

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

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 2003 the Group had 62 employees (31 December 2002: 54 employees).

The consolidated financial statements were authorized for issue by the Chairman on behalf of the Board of Directors on 14 January 2004. The Shareholder's 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. (incorporated in The Bahamas), and the financial statements of its wholly owned subsidiary IPG (Luxembourg) S.A. The consolidated financial statements of IPG Ltd., 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 Statement

For the year ended 31 December 2003

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 current 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.

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Buildings	20 years
Vehicles, equipment and computer software	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 shareholder's 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 shareholder's equity until the disposal of the subsidiary.

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to 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.

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. CASH AND CASH EQUIVALENTS

	2003	2002
	KD	KD
Cash on hand and at banks	103,344	1,790,399
Call accounts and time deposits	6,128,103	832,706
	<u>6,231,447</u>	<u>2,623,105</u>

Short-term deposits yield interest at an effective weighted average rate of 0.84% per annum (2002: 0.84% per annum).

4. INVESTMENTS HELD FOR TRADING

	2003	2002
	KD	KD
Managed portfolios held for trading	19,061,529	16,862,612
Quoted securities held for trading	2,548,348	4,579,464
	<u>21,609,877</u>	<u>21,442,076</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

	2003	2002
	KD	KD
Trade receivables	58,787,317	60,821,827
Prepaid expenses	253,154	280,840
Staff receivables	645	-
Refundable deposits and taxes	70,838	63,976
Unrealised gain on futures and swaps	168,329	72,885
Other	42,370	34,966
	<u>59,322,653</u>	<u>61,274,494</u>

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

6. OTHER LOANS

	2003	2002
	KD	KD
Al-Manar Plastic Product Company Ltd.	55,094	55,978
Arabtank Terminals Limited	260,409	264,585
	<u>315,503</u>	<u>320,563</u>

The loan of Saudi Riyals 700,000 to Al-Manar Plastic Product Company Ltd. carries interest of 8% per annum (2002: 8% per annum).

The Group has provided a long-term subordinated loan to Arabtank Terminals Ltd., Saudi Arabia which carries interest of 3% per annum (2002: 3% per annum, see Note 9).

7. INVESTMENTS AVAILABLE FOR SALE

		2003	2002
	Percentage of ownership	KD	KD
Investment in Al-Manar Plastic Product Co. Ltd.	10%	105,457	105,457
Investment in Fujairah tank terminal project	10%	888,301	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>2,393,446</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 Statement

For the year ended 31 December 2003

8. INVESTMENT IN JOINT VENTURES

	2003	2002
	KD	KD
Investment in D&K Shipping Limited, Bermuda	335,679	530,002
Subordinated long-term loan to D&K Shipping	1,101,027	1,101,027
	<u>1,436,706</u>	<u>1,631,029</u>
Uniterminals Ltd., Lebanon	1,394,224	1,384,964
D&K Petroleum LLC, Dubai	12,055	-
	<u>2,842,985</u>	<u>3,015,993</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.

The Group's share in the net assets and results of the joint venture reflected in the consolidated financial statements based on the audited financials for the year ended 31 December 2002 and the management accounts for the eleven months period ended 30 November 2003 (2002: 11 month period) is as follows:

	2003	2002
	KD	KD
Marine vessels	2,433,334	1,532,342
Current assets	596,452	931,732
Current liabilities	(703,790)	(209,491)
Long-term loan	(889,290)	(623,554)
Net assets	<u>1,436,706</u>	<u>1,631,029</u>
Operating income	1,660,469	613,165
Other income	8,053	34,085
Loan interest and other expenses	(1,862,845)	(421,009)
Net profit for the year / period	<u>(194,323)</u>	<u>226,241</u>

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

8. INVESTMENT IN JOINT VENTURES (Continued)

Uniterminals Ltd.

In 2002, 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 the Group's consolidated financial statements based on audited financials for the period ended 30 June 2003 and management accounts for the five month period ended 30 November 2003 (2002: 11 month period) is as follows:

	2003	2002
	KD	KD
Total assets	5,733,632	6,344,133
Current liabilities	(2,624,737)	(3,334,836)
Long-term debt	(1,714,671)	(1,624,333)
Net assets	<u>1,394,224</u>	<u>1,384,964</u>
Operating profit	263,377	83,436
Other income	121,456	63,795
Loan interest and other expenses	(375,573)	(254,834)
Net loss for the year / period	<u>9,260</u>	<u>(107,603)</u>

D&K Petroleum LLC, Dubai

During the year, the Group established an equal ownership joint venture in D&K Petroleum LLC (DKPL), with Emirates National Oil Company LLC (ENOC), a company incorporated in United Arab Emirates for the purpose of trading of fuel oil and other petroleum products. The Group's share in the issued and paid-up share capital of DKPL is KD 12,055. This investment is carried at cost since DKPL was registered in October 2003. Based on DKPL's shareholder's agreement, both the partners had executed business transactions on behalf of DKPL during the year. The net balance receivable from the joint venture as at the balance sheet date amounts to KD 15,372,080, which is included under Trade and other receivables (Note 5).

9. INVESTMENT IN ASSOCIATES

	2003	2002
	KD	KD
Inpetro SARL	119,441	44,089
ArabTank Terminals Ltd (ATT)	886,109	2,293,970
Horizion Djibouti Holdings Ltd.	504,399	-
	<u>1,509,949</u>	<u>2,338,059</u>

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

In 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.

During the year, the Group invested KD 75,352 representing part of its total commitment of 49% in Inpetro SARL. Inpetro SARL was incorporated for the purpose of constructing and operating petroleum storage tanks and terminals in Mozambique. The Group's investment in Inpetro SARL is carried at cost as it is yet to commence business operations.

During the year the Group sold 50% of its holding in Arabtank Terminals Ltd. Saudi Arabia (* ATT*) at cost to Emirates National Oil Company LLC (ENOC), which has reduced its investment to 36.5%. The Group recognized KD 286,101 as its share of loss from ATT based on the audited financials for the year ended 31 December 2002 and management accounts for the eleven month period ended 30 November 2003.

During the year, the Group invested KD 504,399 representing part of its total commitment of 22.22% holding in Horizon Djibouti Holdings Ltd, Djibouti, which is engaged in constructing and operating petroleum storage tanks and terminals.

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

10. PROPERTY AND EQUIPMENT

	Land KD	Buildings KD	Furniture, equipment and computer software KD	Motor vehicles KD	Leasehold improvements KD	Total KD
Cost						
As at 1 January 2003	543,582	892,464	380,640	69,574	58,877	1,945,137
Additions	-	-	41,630	-	-	41,630
Disposals	-	-	-	(16,274)	-	(16,274)
Currency translation effects	-	-	(5,044)	(1,097)	(929)	(7,070)
As at 31 December 2003	543,582	892,464	417,226	52,203	57,948	1,963,423
Accumulated depreciation						
As at 1 January 2003	-	803,216	315,751	64,827	32,393	1,216,187
Charge for the year	-	44,623	29,851	2,361	5,136	81,971
Disposals	-	-	-	(16,274)	-	(16,274)
Currency translation effects	-	-	(4,328)	(1,048)	(564)	(5,940)
As at 31 December 2003	-	847,839	341,274	49,866	36,965	1,275,944
Net book value						
As at 31 December 2003	543,582	44,625	75,952	2,337	20,983	687,479
As at 31 December 2002	543,582	89,248	64,889	4,747	26,484	728,950

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

11. DUE TO BANKS

Due to banks represents the credit facilities provided by the Group's bankers in Kuwaiti Dinars and United States Dollars. These facilities carry an effective interest rate of approximately 1.99% p.a. (2002: 2.38% p.a.), which is repriced every month based on LIBOR. A portion of the US\$ facilities amounting to KD 12,693,600 (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

	2003	2002
	KD	KD
Trade payables	12,108,417	21,342,425
Accrued expenses	5,703,317	6,005,566
Accrued staff leave	177,537	168,159
Kuwait Foundation for the Advancement of Sciences	42,409	18,083
Other	1,975,631	1,354,965
	<u>20,007,311</u>	<u>28,889,198</u>

13. PROVISION FOR STAFF INDEMNITY

	2003	2002
	KD	KD
Balance at beginning of the year	503,442	435,211
Charge for the year	87,824	89,185
Payments made during the year	(16,631)	(20,954)
Balance at end of the year	<u>574,635</u>	<u>503,442</u>

14. SHARE CAPITAL

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

15. 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.

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.

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

17. TREASURY SHARES

	2003	2002
Number of shares	5,875,000	6,075,000
Percentage of issued shares	5.40%	5.59%
Market value (KD)	3,113,750	2,490,750

18. NET INTEREST RELATING TO OIL MARKETING OPERATIONS

	2003	2002
Interest income	1,668,309	1,315,628
Interest expense	(1,399,597)	(926,025)
	<u>268,712</u>	<u>389,603</u>

19. INVESTMENT INCOME / (LOSS)

	2003	2002
Gain from investments held for trading	2,879,626	(1,323,221)
Dividend income	438,610	502,346
	<u>3,318,236</u>	<u>(820,875)</u>

20. OTHER INCOME

	2003	2002
Net foreign exchange loss	(76,722)	(84,986)
Interest income	85,467	39,709
Miscellaneous income	66,187	140,223
	<u>74,932</u>	<u>94,946</u>

21. FINANCE CHARGES

	2003	2002
Bank charges	15,804	34,852
Interest expense	43,540	97,151
	<u>59,344</u>	<u>132,003</u>

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

22. 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:

	2003	2002
Net profit for the year	KD 4,566,137	KD 1,936,229
Number of issued shares	Shares 108,750,000	Shares 108,750,000
Weighted average number of treasury shares	(6,000,479)	(6,134,725)
Weighted average number of shares outstanding	102,749,521	102,615,275
Earnings per share (fils)	44.44	18.87

23. PROPOSED DIVIDENDS

The directors propose a cash dividend of 30 fils per share (2002:20 fils per share). This proposal is subject to the approval of the shareholder's Annual General Assembly.

24. 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:

	2003	2002
Sales	KD 11,435,123	KD 63,863,923
Purchases	-	318,713
Trade and other receivables	18,394,749	5,748,445
Trade and other payables	105,367	898,850
Other and short-term loans	657,935	668,482

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

25. 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:

	2003			2002		
	Africa and Middle East KD	Europe and South America KD	Asia and Far East KD	Africa and Middle East KD	Europe and South America KD	Asia and Far East KD
Sales	174,903,747	10,297,160	24,958,163	219,214,166	3,891,829	51,845,710
Segment result	4,271,230	52,693	236,738	4,969,995	11,999	130,669
Unallocated corporate expenses				(2,711,213)		(2,264,786)
Operating profit	4,271,230	52,693	236,738	2,258,782	11,999	127,904
Other information:						
Segment assets	32,730,094	5,655,758	-	57,905,346	-	-
Unallocated corporate assets				38,385,852		
Total assets	32,730,094	5,655,758	-	96,291,198	-	-
Segment liabilities	9,799,362	2,309,055	-	11,865,114	5,213,555	4,263,756
Unallocated corporate liabilities				54,629,865		
Total liabilities	9,799,362	2,309,055	-	66,494,979	5,213,555	4,263,756
	4,271,230	52,693	236,738	1,849,448	11,999	127,904
	174,903,747	10,297,160	24,958,163	210,159,070	3,891,829	51,845,710
	4,271,230	52,693	236,738	4,560,661	11,999	130,669
	(2,711,213)			(2,711,213)		(2,264,786)
	1,849,448			1,849,448		2,847,877
	38,385,852			38,385,852		57,905,346
	58,702,581			58,702,581		36,674,786
	97,088,433			97,088,433		94,580,132
	12,108,417			12,108,417		21,342,425
	54,629,865			54,629,865		45,204,363
	66,738,282			66,738,282		66,546,788

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 Statement

For the year ended 31 December 2003

26. 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 risk

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 Kuwait 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. (2002:0.84% 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.

Notes to the Consolidated Financial Statement

For the year ended 31 December 2003

26. FINANCIAL INSTRUMENTS - FAIR VALUE AND RISK MANAGEMENT (Continued)

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 in order 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.

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	Notional amount	Fair value	Fair value
		2003 KD	2002 KD	2003 KD	2002 KD
Swap contracts	Buy	169,641	-	150,999	-

27. 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 6 years ending 31 December 2009, depending on the after tax profits of the company.

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28. COMMITMENTS AND CONTINGENT LIABILITIES

	2003	2002
	KD	KD
Capital commitments for purchase of investments:		
Arabtank Terminals Limited Phase II	3,247,200	2,494,000
Inpetro SARL	1,500,000	1,003,000
Uniterminals Ltd	1,328,400	-
Horizon Djibouti Holdings Ltd, Djibouti	560,880	341,000
Others	590,400	-
	<u>7,226,880</u>	<u>3,838,000</u>
Contingent liabilities:		
Letters of indemnity	6,018,950	1,029,799
Letters of guarantee and bid bonds	7,741,387	9,222,373
Letters of credit	30,925,244	21,619,884
	<u>44,685,581</u>	<u>31,872,056</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, 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, which is included under trade and other payables and the contingent liability representing the difference in the accrued interest amounts to approximately KD 1.8 million.

On 15 December 2003, the Parent company signed a final and conclusive agreement with the supplier and the Central Bank in the country of the supplier to settle the amount directly. However, the execution of the agreement will be subject to the final ruling of the court in the said lawsuit. Should the final court ruling be in favour of the Parent company whereby the court dismisses the case filed by the local bank against the Parent company, the agreement with the supplier and the Central Bank in the country of the supplier will be enforced which will result in the reversal of an accrued excess liability of approximately KD 2.1 million to the income statement.

29. COMPARATIVE FIGURES

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