

# 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.

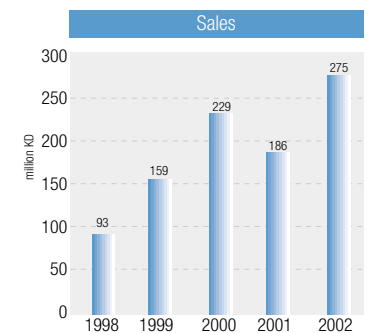
The tension in the Gulf area in the wake of the events of September 11th created an unstable market. This also contributed to high crude oil prices throughout the year. As of 31/12/2001, BRENT oil price stood at about US\$ 19 per barrel, and by 30/12/2002 was about US\$ 28 per barrel, an increase of

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.

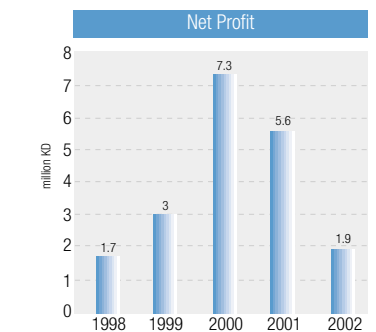
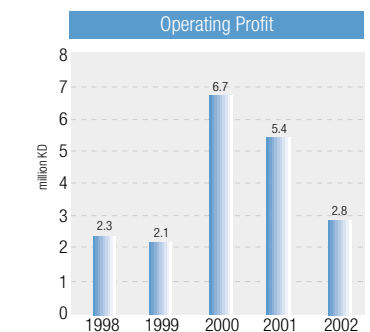
The continued global recession brought about a slump in the stock markets for the third year in a row. The DOW JONES index sank by about 16.8%, as did the NASDAQ Index and the S&P 500 which were down by about 31.5% and 23.4% respectively. This had an adverse impact on the performance of the company's 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...



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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...

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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%

