

Message to the Shareholders

Dear Shareholders,

The Board of Directors is pleased to submit the annual report on the performance of the Independent Petroleum Group Company (IPG) and its operations for the year 2004.

The year 2004 was eventful, both for the oil markets and IPG. The price for US WTI crude oil rose from \$ 33.70 a barrel at the start of the year to a record \$ 55.70 in October and closed at \$ 43.64 at the end of the year; an increase of 30%. The same applies for the BRENT crude which rose from \$ 31.00 at the start of the year to a record \$ 52.03 in October then dropped to \$ 39.89 at the end of the year; an increase of 29% from the start of the year.

The unexpected and unprecedented large increase in demand, the largest in 24 years, is attributed to the growing increase in automobile manufacturing and the huge economic growth in China and India. Additionally, the instability in Iraq and the fears of disruption of oil supplies, led to the increase in the prices of oil.

The global financial markets were also quite volatile in 2004. The DOW JONES average was at 10,400 points at the start of the year and continued to fluctuate during the year, falling to its lowest level of 9,780 points in November and ending the year at 10,800 points.

The Board of Directors is pleased to announce to our shareholders that despite the above fluctuations in the oil and the global financial markets, IPG made record profits, the highest since its establishment in 1976, amounting to KD 8.68 million which is 79.8% of the capital of KD 10.875 million. This is also up 88.7% from the profits of KD 4.6 million in 2003. We should emphasize that these profits are made primarily from marketing activities. Profits from oil market operations rose 72% to KD 7.9 million from KD 4.6 million in 2003. The hedging policy using the instruments of the petroleum markets minimized our trading risks, particularly under the very difficult and volatile market conditions during the year.

IPG achieved outstanding results that may be summarized as follows:

-IPG reached a settlement agreement with the National Bank of Kuwait (NBK) in the law suit filed by the said bank against IPG concerning the oil shipments purchased by IPG from the Iraqi State Oil Marketing Organization (SOMO) in 1990. NBK withdrew its case from the Court of Appeal. A comprehensive and final settlement agreement was executed with SOMO, the Central Bank of Iraq and IPG. The original amount due to SOMO was also paid.

-As part of the settlement, it was also agreed that IPG would pay the interest owed by it as SOMO's contributions (share) in future joint oil projects in Iraq. These projects will be jointly owned by IPG, SOMO and the Iraqi Ministry of Oil. The outcome of the settlement agreement with NBK was that an amount of KD 1.88 million was added to IPG's income, versus a possible loss estimated at around KD 4.86 million, had the First Court judgment of May 8th, 2002 been executed.

-We wish to note that the Iraqi Ministry of Oil, the Central Bank of Iraq and SOMO praised IPG's efforts and sincere intention to take the initiative to settle the owed amounts due to SOMO since 1990. As a result, cooperation between IPG and SOMO strengthened to such an extent that SOMO purchased petroleum products from IPG through Khour Al-Zubair Port for a total amount of \$ 83 million during 2003 and 2004. IPG hopes to start soon a joint petroleum project with SOMO as a result of the above settlement. Both the Iraqi Ministry of Oil and the Central Bank of Iraq have shown their approval and blessings to such joint cooperation.

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-Close cooperation between IPG and Emirates National Oil Company Limited (ENOC) in the fields of project developments and oil marketing continued throughout the year. This has been particularly exemplified by the formation of a 50/50 company (D&K Petroleum LLC). Some employees of IPG have already been assigned to Dubai to work at the D&K Petroleum Co., which will focus on marketing bunker fuel oil, oil product sales to Iraq and investments in petroleum projects in Iraq.

-The Carlyle Group submitted an offer to purchase all the shares of Petroplus (a Dutch Company) as well as all outstanding bonds, at the price of Euros 8.0 per share, raised later to Euros 9.0 per share. IPG agreed to sell all its 599,595 shares in Petroplus, which is equivalent to \$ 7.0 million. The sale transaction to the Carlyle Group is expected to be completed during Marchy 2005.

-In view of the wide fluctuations in the global financial markets, IPG achieved only KD 2.0 million in revenues from its portfolios and other investments, versus KD 2.8 million in 2003.

In marketing operations, the Group achieved the highest sales in its history, with total sales amounting to around KD 398 million, up 89.5% from the sales of 2003 (KD 210 million). In addition, IPG contributed in an effective manner in the sale turnover of the new company, D&K Petroleum, whose sales reached KD 248 million. Close cooperation between IPG and ENOC continued in bunker fuel oil trading and in all the marketing operations in Iraq.

We also continued to cooperate with other national companies, such as ARAMCO in Saudi Arabia, SOMO in Iraq, NIOC in Iran, BAPCO in Bahrain, QGPC in Qatar, ORC in Oman, ADNOC and EMARATS in the UAE and with Major Oil companies such as EXXON-MOBIL, SHELL, BP, TOTAL, and CHEVRON-TEXACO. We also continued our activities in markets in the Mediterranean, the Red Sea, East Africa, the Indian Ocean and the Far East. IPG has also succeeded in establishing business with new customers in Jordan, Syria and Morocco culminating in winning attractive contracts in these new markets during the year. The activities of IPG's office in London supported our marketing efforts in the Mediterranean and the Black Sea, and contributed in taking advantage of opportunities when differentials in prices develop between Eastern and Western markets. IPG's office in Singapore also continued to support our marketing efforts in the Far East.

We wish to note that the total quantities of both petroleum products and crude oil sold during 2004 totaled 8.5 million tons (i.e. about 64 million barrels, or an average of 175,000 barrels a day), compared to 2003 quantities of 6.5 million tons (48 million barrels, or average of 131,000 barrels a day). This increase is in excess of 30%, which is a notable achievement by IPG.



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On the other hand the Finance Department supported the marketing operations in a very effective manner. Banking operations, including the opening of documentary credits and other transactions with the selling companies and the receipt of credits from purchasing companies, as well as the D&K operations, totaled around \$ 4.0 billion. The Financial Department succeeded also in increasing the borrowing facilities of IPG from both Kuwaiti and foreign banks.

IPG continued to focus on the development of projects to meet the following needs:

IPG continued implementing its strategy, which is to expand investments in the oil industry by entering into petroleum-related projects yielding short and long-term financial returns and thus providing a stable income minimizing the effect of oil price fluctuations. IPG made sure in its selection of these projects that they were complementary to its core activity of oil marketing in its conventional markets, while also providing real economic benefit. Accordingly, IPG specified the investment fields so that they would be generally in the support services (logistic) sectors of the oil industry which included storage and distribution terminals, pipelines, oil tankers and ship bunkering operations in and around its traditional markets.

IPG hopes that its global investments in the oil industry would provide it with the opportunity to play a significant role in the local oil industry, as and when the private sector is called to participate.

In implementing the above-mentioned strategy, IPG actually owns at present shares in existing and operating projects as outlined below:

-12.5% in a petroleum products pipeline in Pakistan at a total cost of the project of \$100 million.

-50% in D&K Shipping Company (three petroleum products tankers) at a total cost of the joint project

of \$ 28 million.

-24% in Ship Bunkering Company operating in Fujairah, at a total cost of the joint project of \$ 1.4 million.

-10% in a storage terminal in Fujairah, operating at a full storage capacity of 1.1 million cubic metres, at a total cost of the project of \$ 150 million.

-50% in a terminal and marketing company in Lebanon (Uniterminals), operating at full storage capacity of 60,000 cubic metres, at a total cost of the project of \$ 24 million.

Accordingly, IPG's share in all existing and currently operating storage capacity is equal to 140,000 cubic metres.

IPG achieved good results out of the above projects and expects better results in the future. Additionally, the above projects have provided the Company with additional benefits as they indirectly supported our trading activities (i.e. positive synergy effects).

In addition to the above existing and operating projects, IPG has succeeded in developing the following new projects with other strategic partners:

1- Petroleum and Chemical Products Terminal in Doraleh - Djibouti

Estimated Project Cost: USD 94 million

IPG's share: 20%

Project Description: Horizon Djibouti Terminals Company Limited was established in September 2003 in Djibouti by Independent Petroleum Group, Emirates National Oil Company (ENOC) - a company wholly owned by the Government of Dubai (40%), Boreh International Limited in Djibouti (25%), Essence Management Limited (5%) and the Government of Djibouti (10%).

The construction of the installations began with a storage capacity of 238,000 cubic metres, at a cost of USD 69 million. The construction will be completed in August 2005. The storage capacity is expected to increase by 132,000 cubic metres, at a cost of Approximately USD 25 million. A five year contract has already been concluded for the rental of 96,000 cubic metres.

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2- Petroleum Products Terminal in Beira - Mozambique

Estimated Project Cost: USD 24 million

IPG's share: 30%

Project Description: Inpetro SARL was established in November 2002 in Mozambique in participation with Independent Petroleum Group, PETROMOC- Mozambique National Oil Company (40%), NOCZIM - Zimbabwe National Oil Company (30%). The tender for the construction of facilities with a storage capacity of 95,000 cubic metres was awarded to a Chinese company. The construction will be completed in April 2006.

3-Storage Tanks for Petroleum Products Petroleum Products (Second Phase) in Yanbu - Kingdom of Saudi Arabia

Estimated Project Cost: USD 80 million

IPG's share: 36.5%

Project description: The Arab Tank Terminal (Saudi Company) owns this project in Yanbu. This company was established by The Independent Petroleum Group (36.5%), Emirates National Oil Company (ENOC)(36.5%) and the Saudi Arabian Refineries Company (SARCO)(27%).

- The first phase of the project has been completed. It included 16 tanks for chemical products, with a storage capacity of 19,000 cubic metres. They are leased at full capacity.
- The second phase which includes the construction of tanks for petroleum products, with a storage capacity of 350,000-450,000 cubic metres expected to be completed during the last quarter of 2006.

4- Petroleum and Chemical Products Terminal in Jurong Island - Singapore

Estimated Project Cost: USD 206 million

IPG's share: 15%

Project description: Horizon Singapore Terminals Company Limited being incorporated in Singapore by: Independent Petroleum Group (IPG)(15%).

- Emirates National Oil Company Limited (ENOC) (52%) - Bora International Limited (BL)(8%) - South Korea Energy Asia Pte Ltd (SK)(15%) - Martank BV (MBV)(10%).

Construction tenders were invited for the project with a storage capacity of 840,000 cubic metres. Offers have been received and they are now being evaluated. Construction is expected to be completed during the third quarter of 2006.

5-D&K Shipping Project - Purchase of 5 Vessels for the Company Operations

Estimated Project Cost: USD 81 million

IPG's share: 50%

Project description: The vessels will be bought in 2005 through D&K Shipping Company Limited owned equally by Independent Petroleum Group and Emirates National Oil Company (ENOC)

6-Petroleum and Chemical Products Terminal in Tangiers - Morocco

Estimated Project Cost: USD 40 million

IPG's share: 32.5%

Project description: Preliminary investigations and analysis indicated a project size with a total capacity equal to 200,000 cubic metres. This project is Joint Venture between Independent Petroleum Group, Emirates National Oil Company (ENOC)(32.5%) and AKWA group in Morocco (35%). Concession for the project will be awarded through tendering process after pre-qualification.

7- Petroleum and Chemical Products Terminal and Pipelines in Khour Al Zubair - Iraq

Estimated Project Cost: USD 125 million

IPG's share: 35%

Project Description: The Iraqi Oil Ministry agreed that the Iraqi State Oil Marketing Organization (SOMO) can participate in oil projects with Independent Petroleum Group as part of the financial settlement made between SOMO and the Group. It is expected that the terminal project will be the first project which shall be performed under this agreement. A specialized committee has been formed by the Independent Petroleum Group, the Iraqi Oil Ministry and the Iraqi State Oil Marketing Organization, SOMO, to review the technical studies and to make appropriate recommendations. The preliminary storage capacity of the project has been assessed at 200,000 cubic metres.

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8- Petroleum Products terminal in Aden - Yemen

Estimated Project Cost: USD 21 million

IPG's share: 35%

Project Description: IPG, in participation with Emirates National Oil Company Limited (35%) and Aden Refineries Company (30%), is studying and developing the project to construct a petroleum products terminal with a storage capacity of about 150,000 cubic metres.

The total cost of all the above projects amounts to USD 671 million, i.e. about KD 201 million, to be financed by the partners in the ratio of their respective shares. IPG's total share in these projects amounts to USD 191 million, i.e. KD 57 million. The total storage capacity of the above projects will reach about 2.2 million cubic metres. IPG's share of this storage capacity will be equal to about 551,000 cubic metres. By adding the current storage capacity of 140,000 cubic metres to that of the above mentioned projects, the share of ownership of IPG will reach 691,000 cubic metres, distributed over different strategic geographical regions where IPG carries out its marketing activities. The value of IPG's total combined investment in the existing plus those under development will total USD 245 million, i.e. KD 74 million.

As IPG's financial resources for investment in such projects under development and study are limited, the Board of Directors decided in its session on 21.02.2005 to raise the capital by 40%, with an issue premium of 300 Fils, adding around KD 17.4 million to IPG's financial resources for use in the required financing.

Information Technology

IPG is keeping abreast with all the advancement in information technology. The operating programs for the Finance and Marketing Departments were

updated, which considerably increased the efficiency of retrieving data and obtaining reports for the Company. IPG started the electronic archives project, turning all the Company documents to image documents that are saved in the central computer and accessible via Intranet. Over 2 million scanned documents were saved in the Central Computer in 2004. The remainders of the documents are expected to be copied and saved in their entirety by June 2005. New regulations and programs were introduced enabling certain executives and employees of IPG to access the Company's computer, retrieve information and take action at any time and at any place in the world. The development and improvement of the Company's website, www.ipg.com.kw has been completed. All Internet users may visit this website to obtain information about the Company as well as the annual reports of the last five years.

Personnel and Administration

To meet the continuous expansion of IPG's business and activities, a plan was put in place to employ the required human resources. In 2004, seven additional employees were recruited and assigned to the Company's different departments, including 3 Kuwaitis (one of whom in a senior marketing position), as part of the Company's commitment to employ more Kuwaitis.

In conclusion, the Board of Directors expresses its sincere gratitude to the shareholders for their valuable trust and to all IPG's employees for their dedication in their work which was essential in achieving the Company's objectives.

The Board of Directors