

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 2005.

The year 2005 was exceptional for both IPG and the oil markets. During the month of April 2005, IPG was able to increase its capital by 40% through the offering of 43.5 million shares at 400 fils/share, of which, 100 fils represented the par value, and 300 fils premium. Kuwait Financial Center (MARKAZ) was the lead manager and underwriter for the offering. IPG's capital was thus raised to a total of KD 15.225 million, distributed over 152.25 million shares. This increase in funding will allow IPG to expand, finance and fulfill its obligations in projects under development and construction and also assist the Group in carrying out other activities.

During the year 2005, international oil markets witnessed unprecedented increases in the price of crude oil and petroleum products. These increases were due to, among other reasons, higher consumption of petroleum products in China and other countries, the inability of refineries to meet this demand, the hurricanes in the United States of America, as well as the decline of spare capacity in oil producing countries (which reached its lowest level in three decades). All this has caused the price of Brent crude to reach \$67.32



per Barrel, which was the highest level ever since it was traded; a jump of 67% from what it was at the beginning of the year. The price of WTI crude also reached a record level of \$69.81 per Barrel; an increase of 59% compared with that at the beginning of 2005. Freight rates have also increased greatly, 66% higher during 2005 than they were in 2004.

The global financial markets were also quite volatile in 2005, albeit with less intensity as compared with the oil markets. The Dow Jones average reached 10,900 points, fluctuating between 10,000 points and 10,500 points by year-end. The index was 10,700 points at the beginning of the year 2005.

The Board of Directors is also pleased to announce to our shareholders the satisfactory results of 2005, despite the intense volatilities in both the oil and global financial markets. Net profits for the year reached KD 7.3 million as described below:

Year	Net Profit KD (000)	Operating Profits KD (000)	Value of Sales KD (000)	Volume of Sales Tonnes (000)
2005	7,284	4,765	479,765	3,565
2004	8,678	4,600	389,031	3,720
	(16.06%)	3.6%	23.32%	(4.2%)

It should be noted that if the unusual gain of KD 1.88 million, resulting from the settlement between IPG, National Bank of Kuwait and SOMO (State Oil Marketing Organization of Iraq) which was reported in the profits of 2004, were to be removed, then the net profits of 2005 would be better than those of 2004.

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IPG, in its efforts to reduce volatility in its profits in accordance to its strategy, has continued developing petroleum projects that complement its marketing activities, and thus achieve a more steady income. The increase in capital during 2005 will allow IPG to finance investments in these projects.

The following is a summary of IPG's significant achievements in the year 2005:

- IPG continued to intensify its efforts to protect its traditional markets in the Red Sea and East Africa, and expand in the Mediterranean Sea and East Asia. Furthermore, through the efforts of its Harare (Zimbabwe) office, IPG succeeded in inaugurating another office in Cape Town, South Africa, in May of 2005, which will focus on developing new markets in Central and South Africa.
- IPG enhanced its capabilities in its London office to support the increasing activities in the Mediterranean Sea, which culminated in the development of new business in Greece and Turkey. Furthermore, a Gasoline Sales Manager was employed in IPG's office in Singapore who initiated contacts in new markets in Asia such as Taiwan. IPG's activities have also increased in the area of gasoline marketing/trading in the Gulf and East Africa, such as Iran, Iraq, Kuwait, Zimbabwe, and Mozambique. Throughout 2005, IPG leased about 47,000 cubic meters of storage capacity from Vopak Horizon Fujairah Ltd. (VHFL) terminal (of which, IPG owns about 10%). This



reinforced IPG's marketing activities by utilizing these tanks to blend different grades of gasoline components to meet each market's unique specifications.

- IPG's cooperation with both national and international/major oil companies has steadily increased during the course of 2005. IPG purchased petroleum products through annual supply contracts with Saudi-ARAMCO, Iranian-NIOC, Bahraini-BAPCO, EXXON-MOBIL and SHELL. IPG also concluded additional products' supply contracts of less than a year with BP, Qatar-QGPC, Kuwait's KPC, CHEVRON TEXACO, and Indian-ONGC. As for sales, IPG continued to supply Yemen, Eritrea, Zimbabwe on annual contracts as well as to other countries with contracts of less than a year: Jordan, Syria, Lebanon, Iran, Iraq, and other clients in Africa and East Asia. IPG's supply of petroleum products to Lebanon was made via Uniterminal Company, of which IPG owns 50%.
- IPG continued to support and develop the activities of its affiliated Companies in Dubai, by means of restructuring them. In 2005, IPG and ENOC (a wholly owned Company by the Government of Dubai), incorporated D&K Holding, equally owned by the two Companies. The ownership of the following companies will be, by the beginning of 2006, transferred to D&K Holding:

D&K Petroleum LLC. • D&K Shipping LLC • Dubai Shipping Co. LLC.

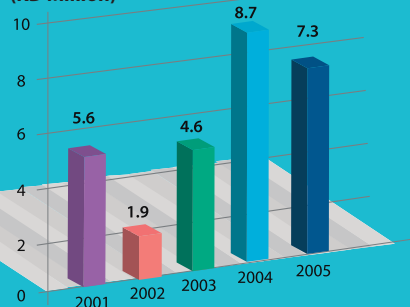
EBFL (ENOC Bunkering Fujairah Ltd.), also partly owned by the Government of Fujairah

- D&K Petroleum carries out all purchasing and selling activities of Fuel Oil for both IPG and ENOC. Furthermore, it meets EBFL's entire demand for Fuel Oil. EBFL, of which IPG owns 37.5%, became the primary supplier of bunker fuel in Fujairah during 2005, with sales reaching a monthly average of 300,000 tones. In addition, all purchasing and selling operations of petroleum products with Iraq are performed through D&K Petroleum.

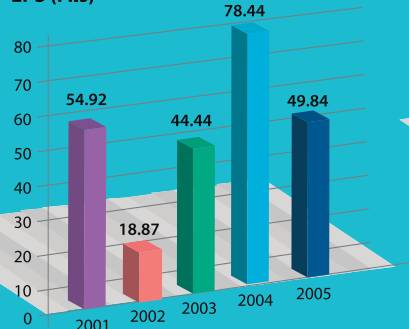
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- D&K Holding was successful during 2005 in obtaining direct credit facilities from banks to undertake all purchasing and selling activities of petroleum products. It is worth noting that the turnover in volume of D&K Petroleum during 2005, has reached roughly 6.3 million tones at sales of \$1.7 billion.
- The shipping department at IPG rendered great efforts to secure IPG's vessel requirements under difficult circumstances brought about by acute shortages of vessels and monumental increases in freight cost. IPG continued to time-charter the GULF STAR, a vessel owned by D&K Shipping. IPG will embark on purchasing new vessels through D&K Shipping to furnish its shipping needs for 2006.
- At the beginning of the year 2005, IPG decided to restructure its investment portfolio. It also changed the former portfolio manager and succeeded in entering into new investment portfolio management agreements with three different international first class banks. These banks have also agreed to provide IPG with new credit facilities to meet the growing financial demand for its trading activities. Additionally IPG has strengthened its relationship with Kuwaiti and other regional Banks. Furthermore, the Finance Department supported marketing and investment operations in a very effective manner, where the financial transactions from letter of credits and other transactions including D&K Petroleum, has reached a total of about \$6.6 billion.

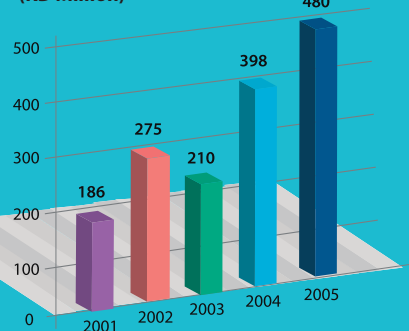
**Net Profit
(KD Million)**



EPS (Fils)



**Sales
(KD Million)**



- IPG established its strategy during the past few years in order to diversify its income and increase it through investments in petroleum projects that complement its marketing activities. In pursuit of implementing this strategy, IPG developed various projects in its traditional markets. IPG expects these projects to generate a separate and distinct profit in the future, in addition to supporting its marketing activities. This was the essential reason for increasing the capital in 2005 to meet its financial obligations in developing these projects with other strategic partners. The total cost of these projects is expected to reach about KD 200 million (\$670 million), of which, IPG's estimated share is KD 57 million (\$190 million).

The following is a summary of IPG's outstanding achievements in project development:

A Operating Projects:

1. Asia Petroleum Limited (APL) – Pakistan: (IPG share 12.5%)

APL owns and operates a petroleum products pipeline in Pakistan with a total capital cost of US \$100 million. Other shareholders in this company are:

- Pakistan State Oil (PSO)
- Asia Infrastructure Ltd of Singapore (AIL)
- VECO International of USA (VECO)

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2. D&K Holdings Company – UAE: (IPG share 50%)

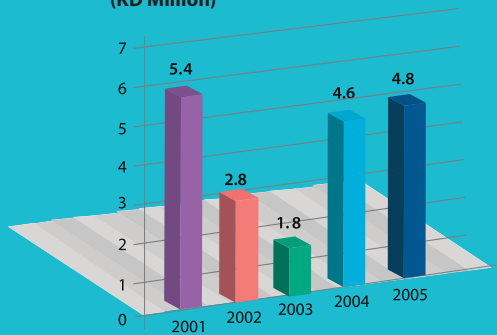
D&KH is a holding company between IPG and Emirates National Company Ltd. (ENOC) which owns four operating companies:

- D&K Shipping LLC.: registered in Bermuda - owns and operates a fleet of petroleum products' vessels. There are plans to expand the company's fleet through purchase or building.
- D&K Petroleum LLC.: is engaged in trading of petroleum products.
- ENOC Bunkering Fujairah Limited (EBFL): is a bunkering company operating in Fujairah.
- Dubai Shipping Co. LLC.: registered in Dubai - owns and operates a fleet of petroleum products' vessels.

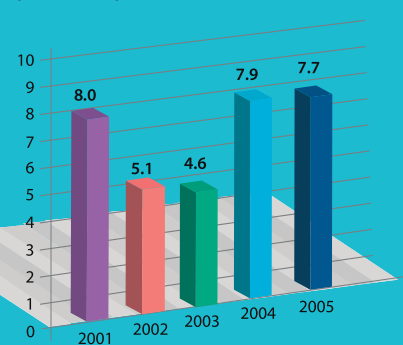
3. Vopak Horizon Fujairah limited (VHFL) – UAE: (IPG Share 10%)

VHFL owns and operates an independent petroleum products storage terminal in Fujairah with a storage capacity of 1.1 million cubic metres, at a total capital cost of US \$150 million. There is an expansion plan for an additional 350,000 cubic meters. Other shareholders in this company are:

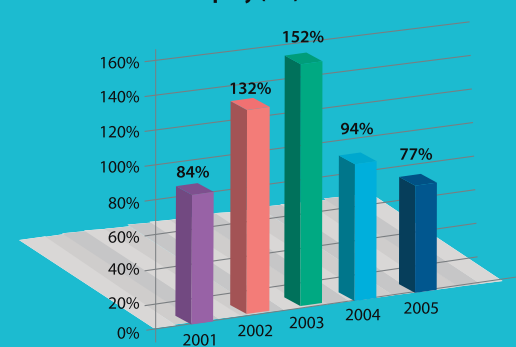
**Operating Profit
(KD Million)**



**Net Result from Oil Market Op.
(KD Million)**



Debt To Equity (%)



- VOPAK Oil Logistics Europe & Middle East B.V. of Netherlands (VOPAK)
- Emirates National Oil Company (ENOC)
- VITOL SA
- The Government of Fujairah

4. Uniterminals, Lebanon: (IPG share 50%)

Uniterminals markets petroleum products to wholesale buyers in Lebanon. It owns and operates a petroleum product storage terminal with a capacity of 60,000 cubic meters. It has a paid up capital of US \$25 million.

- Unihold SAL, Lebanon is IPG's partner in this company

B- Projects under Construction:

1. Horizon Djibouti Holding Limited (HDHL), Djibouti: (IPG share 22.22%)

HDHL owns 90% of Horizon Djibouti Terminals Limited (HDTL), with the remaining balance (10%) owned by the Government of Djibouti. HDTL is constructing an independent storage terminal for petroleum products, LPG, chemical and edible oils with a storage capacity of 370,000 cubic meters and total capital cost of US \$100 million.

Phase I: comprising storage tanks with a total capacity of 238,000 cubic meters, of which 95,000 cubic meters were commissioned in August of 2005, while the remaining volume is to be commissioned in March 2006.

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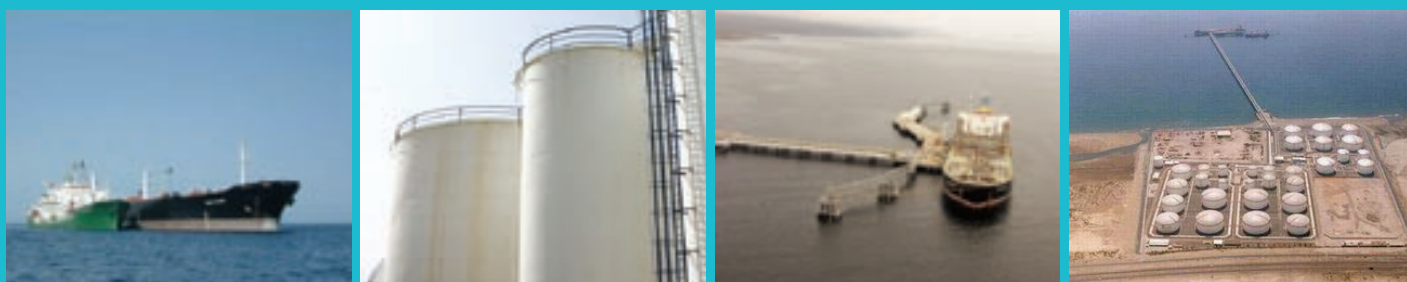
Phase II: comprising storage tanks with a total capacity of 132,000 cubic meters is to be commissioned in July 2006. Other shareholders in this venture are:

- Horizon Terminals Limited (HTL) is a subsidiary of ENOC
- Boreh International Limited (BIL)
- Essense Management Limited (EML)
- The Government of Djibouti

2. Inpetro SARL, Beira – Mozambique: (IPG share 30%)

Inpetro is constructing an independent petroleum products storage terminal with storage capacity of 95,000 cubic meters at a total capital cost of US \$24 million. It is to be commissioned in July, 2006. Other shareholders are:

- PETROMOC – Mozambique, a Government-owned company
- National Oil Company of Zimbabwe (PVT) Ltd. (NOCZIM)



3. Horizon Singapore Terminals Private Limited (HSTPL)-Singapore: (IPG share 15%)

HSTPL is constructing an independent petroleum storage terminal with a storage capacity of 950,000 cubic meters at a capital cost of US \$227 million.

Phase I: comprising 840,000 cubic meters expected to be commissioned during the fourth quarter of 2006.

Phase II: comprising six Fuel Oil tanks for 110,000 cubic meters is expected to be commissioned during the third quarter of 2007. Shareholders are:

- Horizon Terminals Limited (HTL)
- Boreh International Limited (BIL)
- South Korea Energy Asia Pte Ltd (SK)
- Martank BV (MBV)

4. Arabtank Terminals Ltd (ATT), Yanbu – Kingdom of Saudi Arabia: (IPG share 36.5%)

ATT currently operates 16 tanks for chemical products, with a storage capacity of 19,200 cubic meters fully leased. A Board decision was made recently to construct a petroleum products storage facility with a capacity of 227,000 cubic meters (with a potential to increase this to 480,000 cubic meters). The project is at the tendering stage and is expected to be commissioned during the second quarter of 2007. Other shareholders are:

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- Emirates National Oil Company (ENOC)
- Saudi Arabian Refining Company (SARCO)

C- Projects Under Development:

Throughout 2005, IPG has and still is actively studying and evaluating projects of similar nature with strategic partners in different locations. The following projects, which are still under development, reflect IPG's strategy of investing in petroleum projects that support its marketing activities:

- Gulf Region: Iraq, Bahrain, Oman and Qatar
- Middle East: Yemen, Jordan, Syria, and Lebanon
- Far East: China, Korea, Vietnam, and Philippines
- Africa: Morocco, Libya, and Egypt



Information Technology:

IPG has continued to appoint great interest to the field of information technology and its application to all business activities. During the year 2005, IPG upgraded all its computer hardware and operating systems and expanded its database capacity, which considerably increased work efficiency. In June of 2005, IPG completed the electronic archives project employed in transforming all IPG's documents to image documents, which are electronically saved. Over 4.3 million scanned documents are thus saved in the Central Computer System. The completion of this project enabled IPG to send, receive, search and save all data electronically. IPG continued to update its website www.ipg.com.kw, making it possible for shareholders and clients to obtain all vital information about the Company including annual reports for the last five years, as well as quarterly financial reports.

Personnel and Administration:

In view of IPG's continued expansion in business activities, ten additional personnel were employed during the year 2005 including four Kuwaitis in the Finance and Business Development Departments in IPG's headquarters, two in IPG's offices in London and Singapore, and a manager in IPG's new office in Cape Town, South Africa.

As a result, the total number of employees during 2005 reached 78, 70 of whom were in the Head Office; the Kuwaitis representing 26%, compared with a total of 66 employees in the year 2004; only 21% of whom were Kuwaitis.

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