

34<sup>th</sup> ANNUAL  
REPORT  
2010



المجموعة البترولية المستقلة ش.م.ك  
Independent Petroleum Group S.A.K.



## ● OUR OFFICES

- KUWAIT**  
**INDEPENDENT PETROLEUM GROUP S.A.K**  

<b>Head Office</b> P.O. Box 24027 13101 Safat Kuwait	<b>Location:</b> Area 1A 7 <sup>th</sup> Street, Building, No. 18 4 <sup>th</sup> Ring Road, Jabriya	<b>Tel. :</b> (+965) 22276222 - (+965) 25312840 <b>Fax :</b> (+965) 22276100, 22276101, 22276102, 22276103, 25339858, 25329953, 25331472 <b>Email:</b> general@ipg.com.kw
---	---	---
  
- SINGAPORE**  
**INDEPENDENT PETROLEUM GROUP (ASIA) PTE LTD.**  

<b>Location:</b> 10 Shenton Way # 13-01 MAS Building Singapore 079117	<b>Tel.:</b> (+65) 6225 8282 <b>Fax:</b> (+65) 6225 3079 / 8395 <b>Tlx:</b> 21631 ipgsin rs <b>Email:</b> trading@ipgspore.com.sg
--	--
  
- UK – LONDON**  
**INDEPENDENT PETROLEUM GROUP OF KUWAIT LIMITED**  

<b>Location:</b> 112 Jermyn Street, London SW1Y 6LS, UK	<b>Tel.:</b> (+44) 207 925 0505 / 873 0920 <b>Fax:</b> (+44) 207 873 0923 <b>Tlx:</b> 268943 / 911394 ipguk g <b>Email:</b> ipglondon@btinternet.com
--	---
  
- MOZAMBIQUE - MAPUTO**  
**INDEPENDENT PETROLEUM MOZAMBIQUE, LDA**  

<b>Location:</b> Avenida Julius Nyerere, No 760, 3rd Floor, Dto Predio Varandas de Maputo Maputo, Mozambique	<b>Tel.:</b> (+ 258) 21 486351 / 2 <b>Fax:</b> (+ 258) 21 486351 <b>Email:</b> samsande@ipg.co.mz
---	---
  
- SOUTH AFRICA - CAPE TOWN**  
**IPG (SOUTHERN AFRICA) (PROPRIETARY) LIMITED**  

<b>Post Net Suite # 140,</b> Private Bag X18, MILNERTON 7435	<b>Location:</b> Unit D2, The Estuaries Suites, Oxbow Crescent, Century City, 7441 South Africa	<b>Tel.:</b> (+27) 21551 9730 / 9760 / 9822 /9785 <b>Fax:</b> (+27) 21551 4661 <b>Email:</b> reception@ipgsa.co.za
---	--	--
  
- ZIMBABWE - HARARE**  
**INDEPENDENT PETROLEUM GROUP**  

<b>Location:</b> Angwa City, 7 <sup>th</sup> Floor West Wing, Corner Angwa Street / Kwame Nkrumah Av.	<b>Tel. /Fax :</b> (+ 263) 4 752 339 <b>Email:</b> knjeleka@ipgzim.co.zw
---	---
  
- UAE – DUBAI**  
**D&K HOLDING LLC**  

<b>P.O. Box 124317, Dubai -</b> United Arab Emirates	<b>Location:</b> ENOC Building 1 Ground Floor Sheikh Rashid Road Bur Dubai	<b>Tel.:</b> (+ 971) 4 - 313 5000 <b>Fax:</b> (+ 971) 4 - 313 5002 <b>Email:</b> dnkpl@dnkpetrol.com
---	---	--
  
- SUDAN – KHARTOUM**  
**INDEPENDENT PETROLEUM GROUP – SUDAN**  

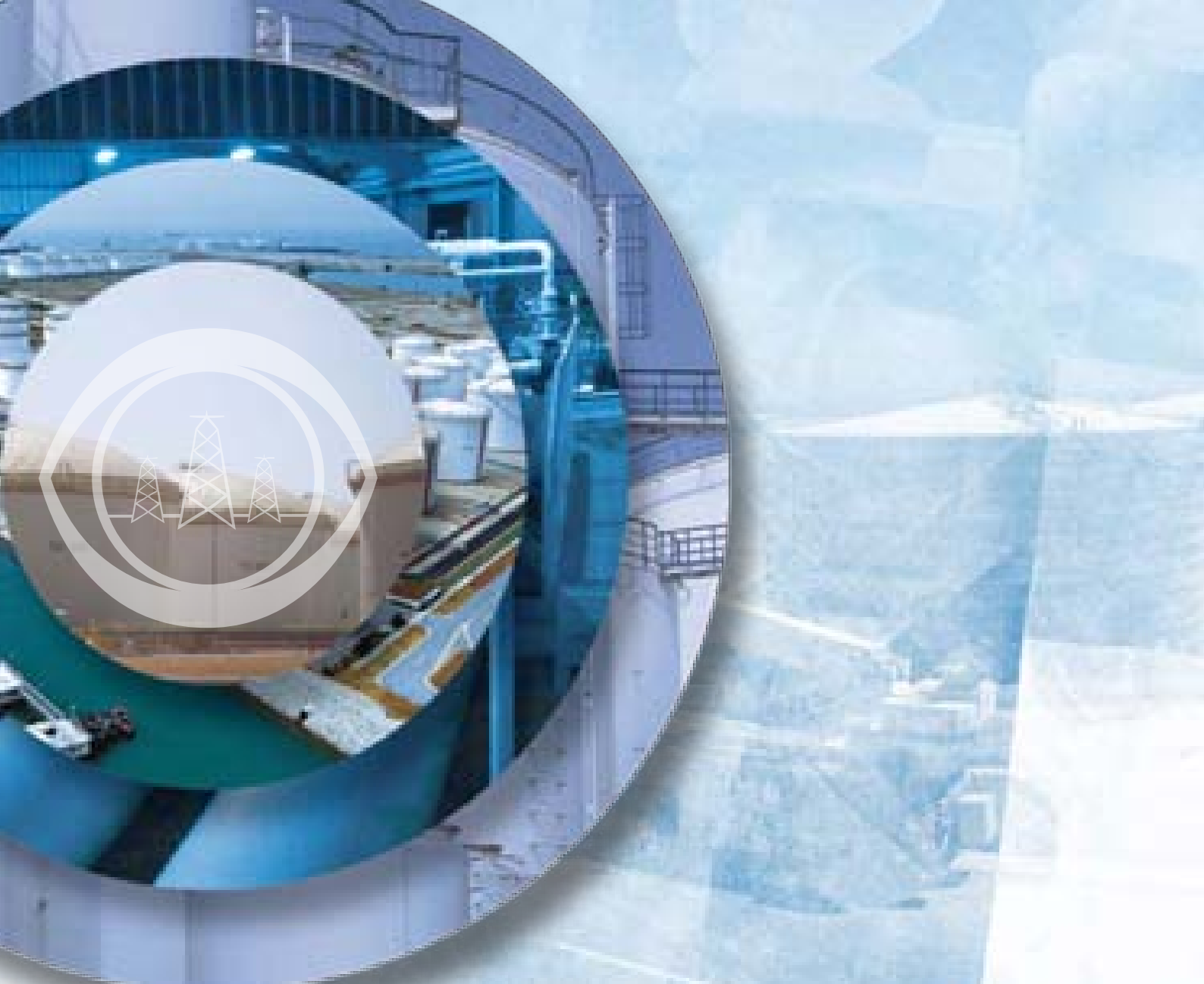
<b>Location:</b> Garden City, Apt no # 112, Ground floor, Khartoum, Sudan	<b>Tel :</b> (+249) 183277874 <b>Fax:</b> (+249) 183277348 <b>Email:</b> Hassan_elzubair@hotmail.com
--	--
  
- IPG'S SUBSIDIARY, JOINT VENTURE & ASSOCIATE COMPANIES**
  - Saudi Arabia - Yanbu (ATT)    ● UAE - Fujairah (VHFL)    ● Lebanon - Beirut (Uniterminals)    ● Morocco - Tangiers (HTTSA)
  - Pakistan - Karachi (APL)    ● Djibouti (HDHL)    ● Mozambique - Beira ( Inpetro SARL)



His Highness Sheikh  
**Sabah Al-Ahmad Al- Jaber Al-Sabah**  
The Amir of the State of Kuwait



His Highness Sheikh  
**Nawaf Al-Ahmad Al-Jaber Al-Sabah**  
The Crown Prince of the State of Kuwait



## Board Of Directors

<b>Khalaf A. AL-Khalaf</b>	● Chairman
<b>Ghazi F. AL-Nafisi</b>	● Vice Chairman
<b>Waleed J. Hadeed</b>	● Executive Managing Director
<b>Jasem M. AL-Musallam</b>	● Managing Director - Business Development
<b>Abdulla A. Zaman</b>	● Managing Director - Planning
<b>Samir S. Shammas</b>	● Managing Director - Marketing
<b>Abdullah E. AL-Kandari</b>	● Director & Chief Financial Officer
<b>Ali M. AL-Radwan</b>	● Director
<b>Dirrar Y. AL-Ghanim</b>	● Director
<b>Ali R. AL-Bader</b>	● Director



## **Contents:**

<b>Message to the Shareholders</b>	<b>4 - 13</b>
<b>Financial Highlights</b>	<b>14</b>
<b>Auditors' Report &amp; Consolidated Financial Statements</b>	<b>15 - 47</b>

# Report of Board of Directors for 2010

## Message to the shareholders

### Dear Shareholders,

The Board of Directors is pleased to submit to our shareholders the 34th Annual Report on the performance of the Independent Petroleum Group (IPG) and its operations for the year 2010.

### A Summary of the General Situation in the Oil Industry & Global Economy

During 2010, the Global economy improved and achieved a growth of approximately 5% brought about by the intervention of members of the Organization of Economic Cooperation and Development (OECD) to stimulate their ailing economies. The Emerging Economies of China, India and Brazil achieved, on the other hand, an economic growth that was higher than those of the OECD countries. However, despite this recovery, there is uncertainty and doubt about the continuity of this Global economic growth as witnessed by the failing economies of some European countries, such as Ireland, Portugal and Greece who are faced with the risk of failing to pay their national debts.

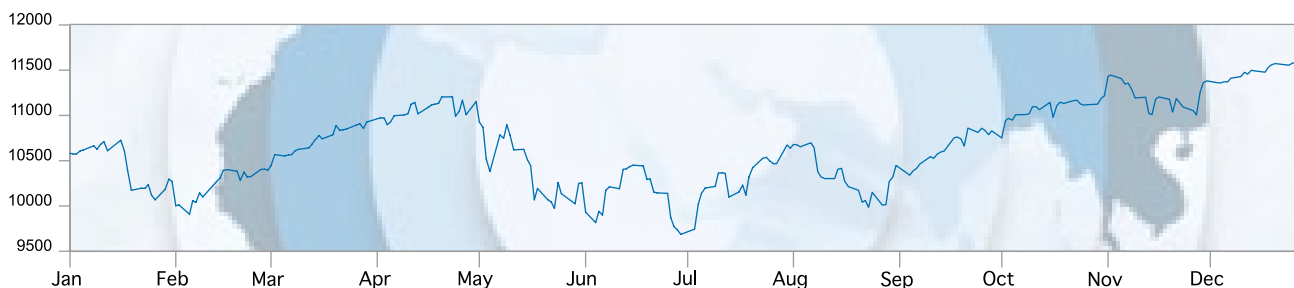
The international stock markets witnessed during the year, some fluctuations in prices, dropping in the first half and rising again during the second half. In the US, the Dow Jones index rose by about 11% and the Nasdaq by about 17%.

As a result of the improved Global economy, Oil demand during 2010 increased by about 1.5 million barrels per day. In addition, North America and Europe encountered a severe cold wave, which led to an increase of WTI and Brent prices to about 92.06 US\$/bbl and 95.20 US\$/bbl, respectively, as well as an increase of OPEC basket to 85.81 US\$/bbl; its highest level since October 2008. Demand for OPEC crudes reached about 28.9 million barrels per day.

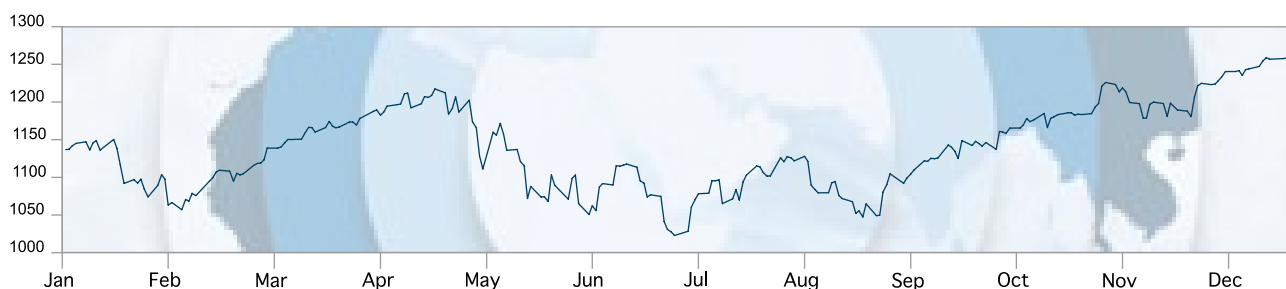
The pattern in Oil demand has gradually shifted more towards Asian countries and less towards North American and European countries, reflecting the differences in economic growth between the two economic blocks. It is expected that the Middle East oil producing countries will not be able to meet the growing demands from Asian countries, such as China and India, causing in the process, an increase in the competition for West Africa, Central Asia and Northern Iraq Crudes.

As to the regional scene, Western pressure continued on Iran to block its importation of gasoline as well as from carrying out financial and banking transactions. This forced most Western oil companies to refrain from dealing with Iran. As to

DOW Movement During 2010



S & P 500 Movement During 2010





Iraq, the development of its oil industry remains vague, despite the formation of the Iraqi government in late 2010, after nine long months of deliberations.

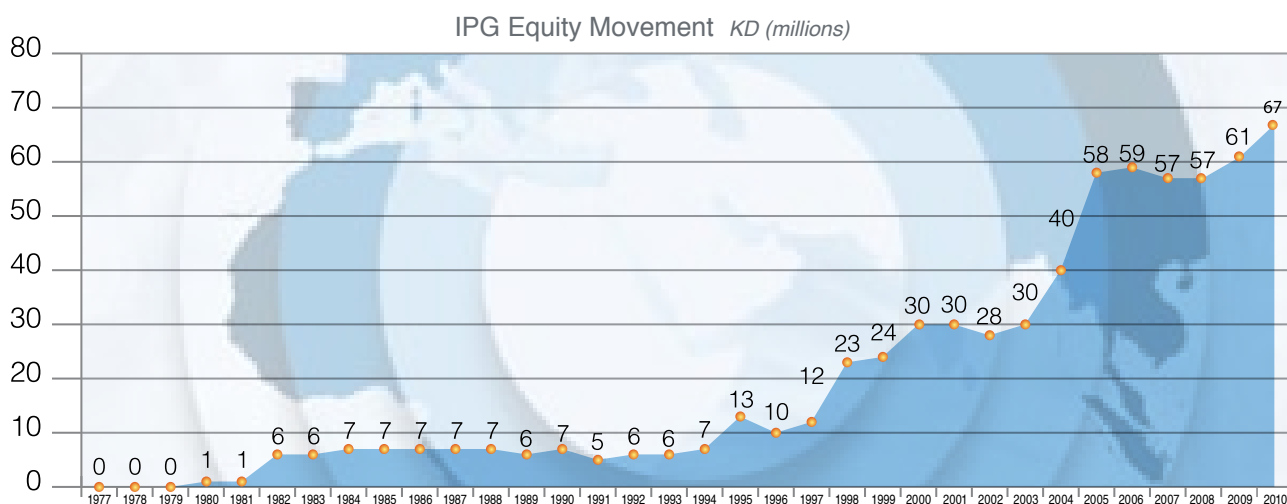
As to the Global scene, the explosion of the BP oil well in the Gulf of Mexico had a major impact on the oil industry, forcing BP to spend billions of dollars to control one of the largest oil spills and pollution in the history of the American oil industry. This catastrophe is expected to cause more restrictions on future oil explorations and productions and, therefore, expected to add greatly to associated costs.

### Summary of IPG's 2010 Results

Despite the improvement in the Global oil and financial markets during 2010, Crude prices witnessed clear fluctuations especially in the first half of the year. This price volatility and lack of clarity led to the decline in the performance of oil trading companies, including IPG, to a level lower than what was achieved in 2009. In addition, the performance of IPG's Global Balanced Portfolio, managed by International banks, dropped to less than half compared with 2009.

IPG's 2010 net profit is KD 4.485 million, which is equivalent to 31.03 Fils per share; compared to a net profit of KD 5.994 million in 2009.

It is worth mentioning that, in spite of the difficulties faced by the banking sectors, domestically, regionally and internationally, IPG managed to conclude a US\$ 56 million loan with the German bank, DVB Group Merchant Bank (Asia) Ltd, through one of its wholly owned subsidiary, to finance the purchase of two oil tankers as part of IPG's acquisition plan and development of a fleet to meet its strategy.



### Marketing and Trading Activities

Despite all the challenges during 2010, such as wild price fluctuations and intense competition, IPG has managed total sales of 5.2 million tons of petroleum products, equivalent to 91% of projected sales in the 2010 Operating Plan.

#### • Trading Activities in the Gulf and Red Sea

Close cooperation continued between IPG and the National Oil Companies in the Gulf and the Red Sea, such as Bahrain National Oil Company, Abu Dhabi National Oil Company of UAE, Saudi Aramco, Qatar Petroleum, SOMO of Iraq, and Aden Refinery Company of Yemen, where sale and purchase contracts for petroleum products were concluded between IPG and these companies. IPG also continued its cooperation with International Oil Companies such as SHELL, ExxonMobil, BP, CHEVRON, the Russian company LITASCO, and the Dutch company GUNVOR. The Partnership with MORGAN STANLEY continued, through which supplies of petroleum products were made to Iraq, Lebanon and Singapore.



# Report of Board of Directors for 2010

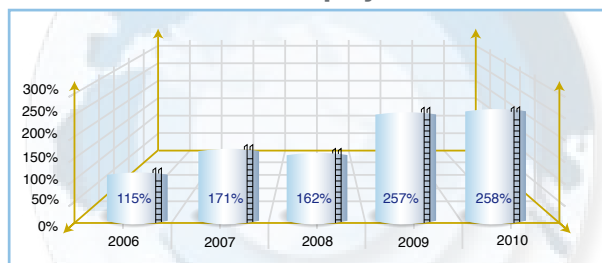
## • Trading Activities in East Africa

Despite severe competition from International Oil Companies and other Trading Companies, IPG was able, by utilizing its Joint Venture (JV) storage facility in Mozambique, to expand its petroleum products marketing activities in Mozambique, Zimbabwe, Malawi and South Africa. To strengthen its trading activities in Sudan, IPG established a Regional Office in Khartoum. Further, IPG made another achievement with Ethiopian Petroleum Enterprise by signing a one year Gasoil supply contract for a quantity between 1.2 – 1.5 million tons for delivery during 2011.

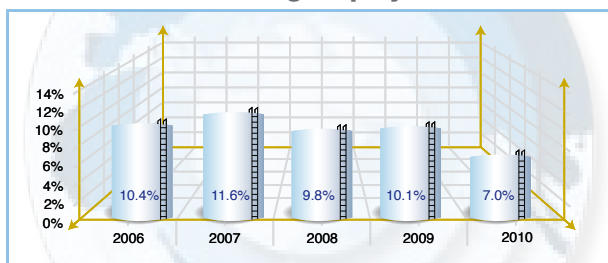
## • Trading Activities in the Mediterranean and Black Sea

IPG supplies to Lebanon continued in cooperation with MORGAN STANLEY and through Uniterminals (50% owned by IPG), where total sales reached about 580,000 tons. Total sales in the Mediterranean grew and reached a level of about 1.5 million tons of petroleum products; such as Gasoil, Jet Fuel, Mogas and Naphtha. IPG also purchased about 107,000 tons of Jet Fuel from a subsidiary of the Libyan National Oil Company and 470,000 tons of Gasoil from Greece. Furthermore, IPG increased its trading activity in the Black Sea by purchasing about 450,000 tons of Gasoil from Ocean Energy of Georgia and about 240,000 tons of Mogas from LITASCO of Russia.

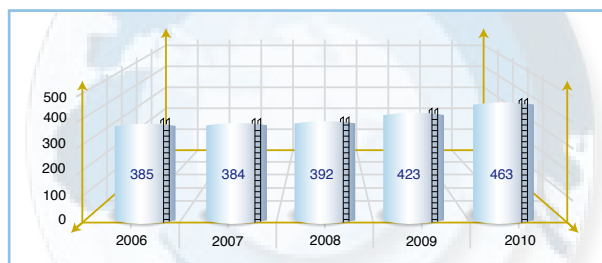
**Debt to Equity (%)**



**Return on Average Equity (ROE) (%)**



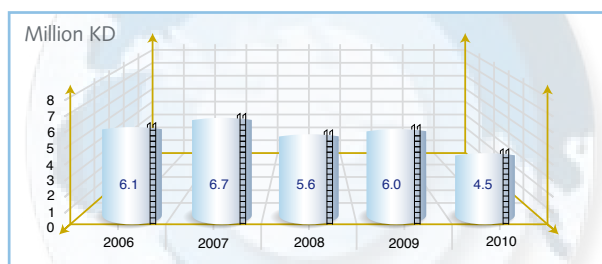
**Book Value Per Share (Fils)**



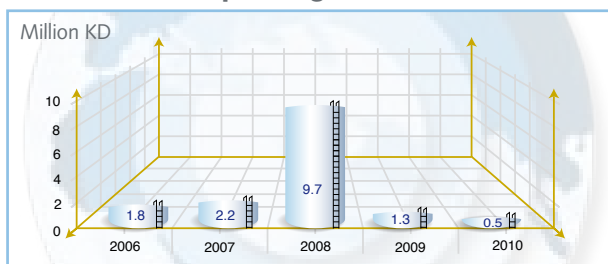
## • Trading Activities in India and the Far East

IPG continued its cooperation with Reliance of India by purchasing about 615,000 tons of Diesel and Gasoline to meet its trading and supply commitments in East Africa and Yemen. IPG also entered into a Cooperation Agreement with the Dutch company GUNVOR for storing and trading petroleum products in Singapore.

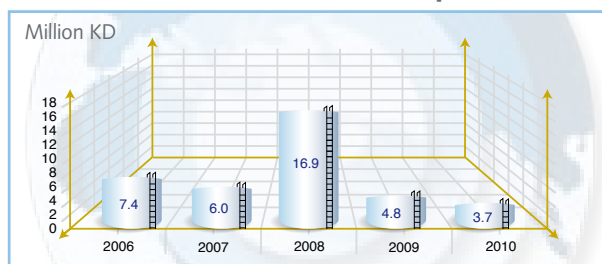
**Net Profit**



**Operating Profit**



**Net Result from Oil Market Operations**





### • Storage of Petroleum Products

IPG continued utilizing storage facilities in Arabtank Terminal in Yanbu in the Kingdom of Saudi Arabia, HSTPL in Singapore, VHFL in Fujairah, INPETRO in Mozambique and Uniterminals in Lebanon, all of which are companies partly owned by IPG. In addition, IPG leased oil storage facilities in TOROS in Turkey to assist its marketing needs. At the end of 2010, the total storage capacity owned by IPG reached about 610,000 cubic meters.

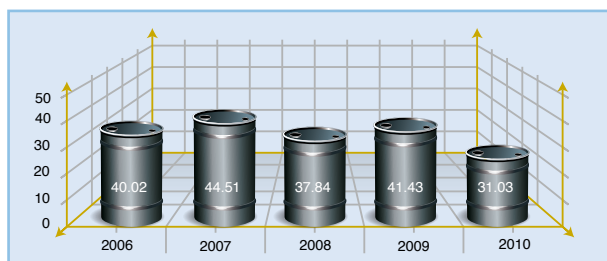
### • Marine and Shipping

During the year, IPG continued to use its three oil tankers exclusively to serve its needs (D&K 1, Gulf Nomad, and Gulf Star). In addition, the Marine Department chartered 67 tankers on spot and 1 on term basis at competitive rates to meet IPG's contractual commitments.

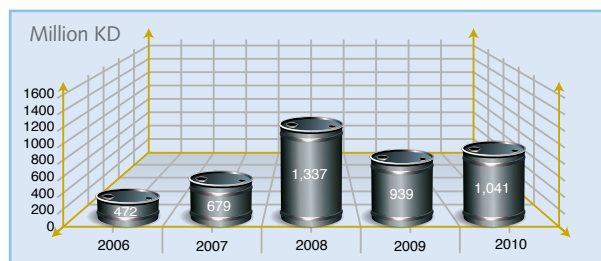
## Business & Projects Development

IPG continued to implement its Income Diversification Strategy by developing investments in logistics, such as storage terminals and pipelines, to support its marketing activities and are, by themselves, economically viable. Efforts continued and progress were made, in cooperation with strategic partners (National Oil Companies, and Local and International Institutions), to develop investment opportunities in Mozambique, Zimbabwe and other countries. Some of these investment opportunities are expected to develop into project construction phase during 2011. In addition, IPG participated effectively, in close coordination with its partners, in monitoring and following up projects under construction, as well as developing expansion projects for its Joint Venture and Associate Companies.

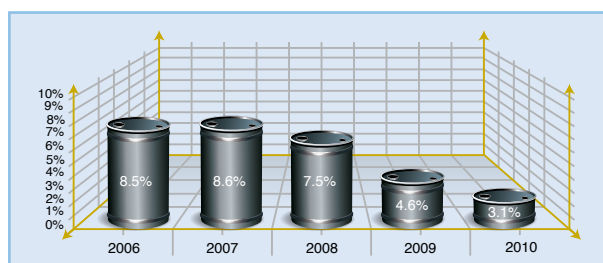
EPS (FILS)



SALES



RETURN ON CAPITAL EMPLOYED (ROCE) (%)



## Finance and Treasury

Despite the continuous monetary challenges caused by the Global financial crisis of 2008/2009, which have greatly affected many international and local banks, IPG continued successfully throughout 2010 to meet its commitments with financial institutions as well as with oil companies and its clients. Furthermore, and based on the exceptional relationships with international and local banks, IPG was able to increase its banking facilities by some US\$ 250 million. These facilities will provide additional support to IPG's marketing activities and to cope with higher oil prices.



## Report of Board of Directors for 2010

During 2010, IPG's trading turnover, inclusive of purchase and sale of petroleum products, reached about US\$ 7 billion, provided by both international and local banks.

### Human Resources

IPG adopted an ambitious career development plan to attract high caliber Kuwaiti nationals. At the end of 2010, the number of Kuwaiti employees in IPG reached 19, holding various Supervisory and Executive positions. During the year, 16 new employees were recruited, bringing the total staff in Head Office and all the Branches to 119. Furthermore, the Human Resources Department reviewed and commenced implementing new HR Policy and Procedures.

The HR Department also completed the coordination and follow-up with contractors and carried out the renovation and furnishing works of the old Head Office.

### Information Technology

The year 2010, from IT perspective, is the year of "Network and Communication", both internally and externally. It commenced with laying a Fiber Optic Cable between the nearest Communication Exchange and the Head Office; upgrading the Internet bandwidth to 16 MB. This will enhance the work environment and also provide a faster connectivity, compatible with IPG's future needs. To provide full connectivity between all its branches, IPG has also initiated the implementation of the 2nd phase of IP Based Telephone Operator, by purchasing and configuring CISCO IP Based telephony systems for all its Branch Offices (London, Singapore, South Africa, Zimbabwe, Mozambique & Sudan). In line with IPG's vision, this new system will provide a modern and effective telecommunication environment and will enable all employees to communicate free of charge, regardless of their geographical location.

### Legal Affairs

During 2010, the failure of a large number of international companies to meet their financial obligations as well as the additional restrictive banks' lending conditions, made the role of the Legal Department more important than ever for IPG's trading activities. IPG's professional and conservative policies, implemented by the Legal Department, helped in avoiding several legal and commercial risks in various projects that IPG participated in. The Legal Department also contributed to the negotiations that led to several lucrative commercial deals for IPG. By retaining the services of the best international legal firms, the Department was also successful in 2010 in resolving several legal problems in favor of IPG and thereby preventing potential financial losses.

As for the case against Eritrea, IPG has previously announced through the Kuwait Stock Exchange that it has submitted an arbitration request before the ICC International Court of Arbitration in Paris in order to force the State of Eritrea and the Petroleum Corporation of Eritrea (PCE) for the immediate payment of KD 19 million, being the value of already delivered petroleum products. IPG's international legal advisers expect that an Award will be rendered in favor of IPG during the first quarter of 2011. IPG will notify the shareholders of the content of the Award upon its announcement and will immediately commence taking all necessary legal proceedings and actions to collect its rightful amount.

In conclusion, the Board of Directors expresses its sincere gratitude to the shareholders for their invaluable trust and support and to all IPG's employees for their dedication to their work.

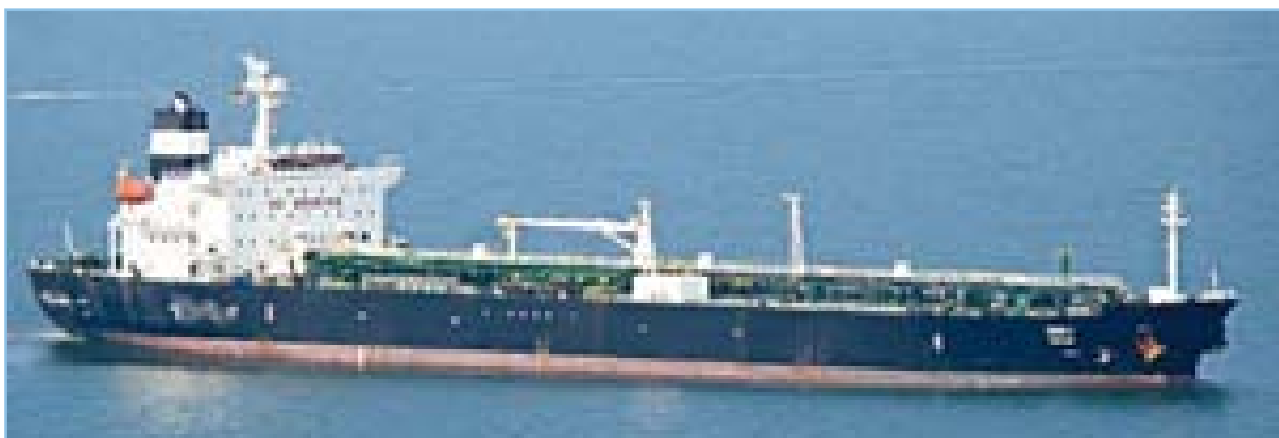
**The Board of Directors**



## **IPG's Subsidiary, Joint Venture and Associate Companies (brief of facilities and latest development)**

### **1. D&K Holdings (L.L.C.) – UAE: (IPG share 100% - Subsidiary Company)**

D&K Holdings is the shipping arm of IPG. The company owns and operates 3 petroleum product vessels, which are fully utilized by IPG. A long term vessels acquisition program was developed and being pursued targeting the addition of 9 petroleum product vessels to the existing D&KH fleet over the next five years. IPG successfully concluded a loan amounting to US\$ 56 million with DVB Group Merchant Bank (Asia) Ltd. for the purchase of two petroleum products vessels during 2011. The D&KH fleet will provide IPG with the required strategic controlled tonnage coverage.

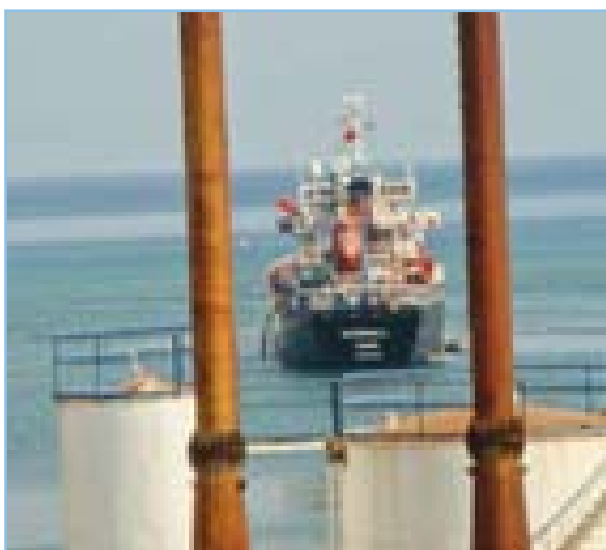


### **2. Uniterminals – Lebanon: (IPG share 50% - Joint Venture Company)**

Uniterminals markets petroleum products to wholesale buyers in Lebanon. It owns and operates a petroleum product storage terminal with a capacity of 74,000 cbm. It has a paid up capital of US\$ 16.7 million.

Other Shareholder is:

- Unihold SAL, Lebanon





## Report of Board of Directors for 2010

### 3. Inpetro SARL, Beira – Mozambique: (IPG share 40%- Associate Company)

Inpetro owns and operates petroleum products storage terminal with storage capacity of 95,000 cbm constructed at a total capital cost of US \$26 million.

Other shareholders are:

- PETROMOC – National Oil Company of the Republic of Mozambique
- NOCZIM - National Oil Company of Zimbabwe (PVT) Limited



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

ATT owns and operates a storage facility of 287,700 cbm of which 268,500 cbm is for petroleum products and 19,200 cbm for chemical products with a total capital cost of US\$ 74 million. Plans to expand the petroleum storage capacity by an additional 230,000 cbm for white oils are under way.

Other shareholders are:

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





#### 5. **Horizon Tangiers Terminals SA (HTTSA) – Morocco: (IPG share 32.5% - Associate Company)**

The Consortium IPG-HTL-Afriquia was awarded the Concession Agreement for 25 years in November 2006 for the construction and operation of hydrocarbon products storage and bunkering facilities at Port Tangiers, Morocco. The storage facility will have a capacity of 508,000 cbm with a capital cost of € 123 million. The facility is under construction and commissioning is expected in the 2nd quarter of 2011.

Other shareholders are:

- Horizon Terminals Limited (HTL), 100% subsidiary of Emirates National Oil Company (ENOC)
- Afriquia SMDC



#### 6. **Horizon Djibouti Holdings Limited (HDHL) – Djibouti: (IPG share 22.22% - Associate Company)**

HDHL owns 90 % of the Horizon Djibouti Terminals Limited (HDTL), with the remaining balance (10%) owned by Govt. of Djibouti. HDTL owns and operates an independent storage terminal for petroleum products, LPG, chemicals and edible oils with a storage capacity of 370,000 cbm constructed at a capital cost of US \$100 million. Presently, HDTL is upgrading the LPG capacity.

Other shareholders are:

- Horizon Terminals Limited (HTL)
- Net Support Holdings Limited (NSHL)
- Essense Management Limited (EML)





## Report of Board of Directors for 2010

### 7. Horizon Singapore Terminals Private Limited (HSTPL) – Singapore: (IPG share 15% - Associate Company)

HSTPL owns and operates an independent petroleum storage terminal with a storage capacity of 1.2 million cbm and 4 jetties at a capital cost of US \$299 million.

Other shareholders are:

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



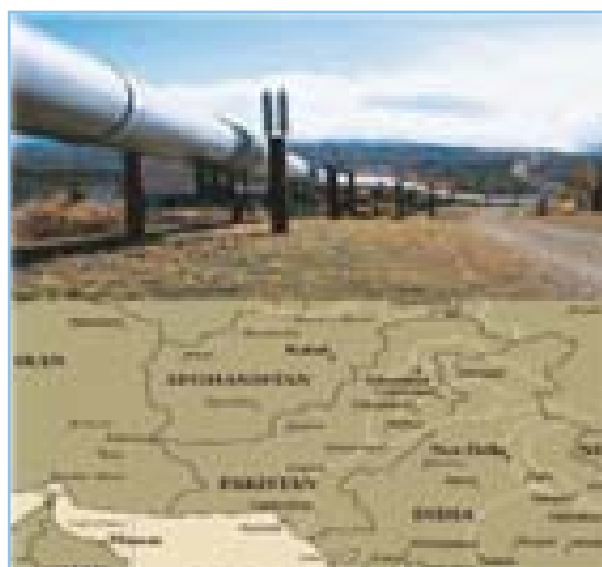
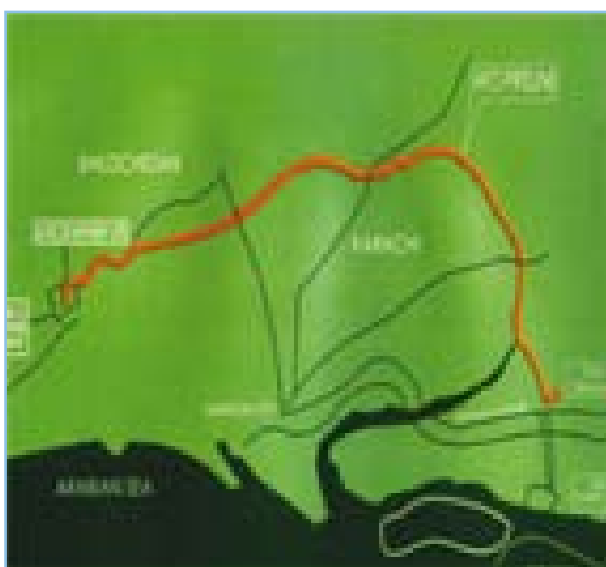


## 8. Asia Petroleum Limited (APL) – Pakistan: (IPG share 12.5% - Associate Company)

APL owns and operates a petroleum products pipeline (including pumping station and storage) in Pakistan. The pipeline runs from Zulfiqarabad terminal at Pipri, Karachi to Hub, Baluchistan to transport Fuel Oil for HUBCO Power Plant. The facility was constructed at a total capital cost of US \$100 million.

Other shareholders are:

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

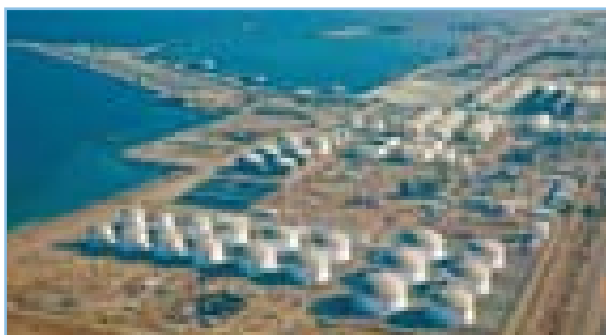


## 9. Vopak Horizon Fujairah Limited (VHFL) – UAE: (IPG share 11.11% - Associate Company)

VHFL owns and operates an independent petroleum products storage terminal in Fujairah with a storage capacity of 1.48 million cbm including marine facilities with 4 berths and one single point mooring (SPM), at a total capital cost of US \$250 million. Construction of Phase VI expansion with an additional storage capacity of 606,000 cbm is under way.

Other shareholders are:

- VOPAK Oil Logistics Europe & Middle East B.V. of Netherlands (VOPAK)
- Horizon Terminals Limited (HTL)
- The Government of Fujairah



## Financial Highlights

	2004	2005	2006	2007	2008	2009	2010
<b>Sales (KD Million)</b>	398	480	472	679	1337	939	1041
<b>Gross Margin (%)</b>	1.9%	1.7%	1.2%	1.4%	1.5%	0.8%	0.6%
<b>Operating Profit (KD Million)</b>	4.6	4.8	1.8	2.2	9.7	1.3	0.5
<b>Net Profit (KD Million)</b>	8.7	7.3	6.1	6.7	5.6	6.0	4.5
<b>Earnings Per Share (Fils)</b>	78	50	40	45	38	41	31
<b>Price Earnings (Time)</b>	7	14	10	10	10	10	15
<b>Book Value (Fils)</b>	366	384	385	384	392	423	463
<b>Cash Dividend (%)</b>	50%	30%	30%	30%	30%	30%	30%
<b>Dividend Yield (%)</b>	9.3%	4.3%	7.5%	6.7%	8.2%	7.1%	6.6%
<b>Total Assets (KD Million)</b>	111	155	156	242	198	304	309
<b>Shareholders' Equity (KD Million)</b>	40	58	59	57	57	61	67
<b>Return on Average Equity</b>	25%	15%	10%	12%	10%	10%	7%
<b>Return on Average Capital Employed</b>	12.8%	10.6%	8.5%	8.6%	7.5%	4.6%	3.1%



## Independent Auditors' Report and Consolidated Financial Statements

### Index

Independent auditors' report	16 - 17
Consolidated statement of financial position	18
Consolidated statement of income	19
Consolidated statement of comprehensive income	20
Consolidated statement of changes in equity	21
Consolidated statement of cash flows	22
Notes to the consolidated financial statements	23 - 47



**KPMG Saif Al Mutawa & Partners**

Rakha Tower, 18th Floor  
Fahad Al Salem Street  
P.O. Box 24, Safat 13001  
Kuwait  
Telephone : + 965 2247 5090  
Fax : + 965 2249 2704

**RSM Albazie & Co.**

Public Accountants

**RSM Albazie & Co.**

Rusayd Airways Building, 7th Floor, Shuhaba Street  
P.O. Box 270, Safat - 13027 State of Kuwait  
T +965 22962200 F +965 2292796  
mal@albazie.com www.albazie.com

## Independent auditors' report

### The Shareholders

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Independent Petroleum Group Company S.A.K. (Closed) ("the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*


In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Emphasis of matter*


Without qualifying our opinion above, we draw attention to Note 6 (as presented by the management of the Parent Company) to the accompanying consolidated financial statements, which explain that there is an arbitration case.

### **Report on Other Legal and Regulatory Requirements**

We further report that we have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements include the information required by the Kuwait Commercial Companies Law of 1960, as amended, and the Parent Company's articles and memorandum of association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognized procedures and the accounting information given in the board of directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December 2010, of the Kuwait Commercial Companies Law of 1960, as amended, or of the Company's articles and memorandum of association, that might have had a material effect on the Group's activities or on its consolidated financial position.



License No. 138-A  
of KPMG Saib Al-Mutawa & Partners  
Member firm of KPMG International



Nayef M. Al Bazie  
License No 91-A  
Albazie & Co.  
Member of RSM International

Kuwait: 13 February 2011

**Nayef M. Al-Bazie**  
Licence No. 91-A

**RSM Albazie & Co.**



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Consolidated statement of financial position as at 31 December 2010**

	Notes	2010 KD'000	2009 KD'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash on hand and at banks	4	14,821	18,499
Investments at fair value through statement of income	5	41,830	40,512
Trade and other receivables	6	131,923	147,376
Inventory		71,176	54,169
<b>Total current assets</b>		<b>259,750</b>	<b>260,556</b>
<b>Non-current assets</b>			
Other loans	7	4,182	4,709
Investments available for sale	5	9,932	2,222
Investment in joint ventures	8	3,180	3,263
Investment in associates	9	15,492	13,706
Property and equipment	10	16,723	19,300
<b>Total non-current assets</b>		<b>49,509</b>	<b>43,200</b>
<b>Total assets</b>		<b>309,259</b>	<b>303,756</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Due to banks	11	167,326	151,419
Directors' fees payable		80	100
Trade and other payables	12	68,134	83,537
Current portion of term loan	13	898	918
<b>Total current liabilities</b>		<b>236,438</b>	<b>235,974</b>
<b>Non-current liabilities</b>			
Non-current portion of term loan	13	4,060	5,069
Provision for staff indemnity	14	1,890	1,516
<b>Total non-current liabilities</b>		<b>5,950</b>	<b>6,585</b>
<b>Total liabilities</b>		<b>242,388</b>	<b>242,559</b>
<b>Equity</b>			
Share capital	15	15,225	15,225
Share premium		22,587	22,587
Legal reserve	16	6,553	6,092
General reserve	17	606	606
Fair value reserve		7,215	10
Share of associates' hedging reserve		(450)	(419)
Foreign currency translation adjustments		(2,649)	(1,000)
Gain on sale of treasury shares		1,422	1,422
Treasury shares	18	(2,807)	(2,807)
Retained earnings		19,169	19,481
<b>Total equity</b>		<b>66,871</b>	<b>61,197</b>
<b>Total liabilities and equity</b>		<b>309,259</b>	<b>303,756</b>

**Khalaf Ahmad Al-Khalaf**  
Chairman

**Ghazi Fahad Al-Nafisi**  
Vice Chairman

**Waleed Jaber Hadeed**  
Executive Managing Director

The notes set out on pages 23 to 47 form an integral part of these consolidated financial statements.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Consolidated statement of income for the year ended 31 December 2010**

	Notes	2010 KD'000	2009 KD'000
Sales		1,040,949	938,981
Cost of sales		(1,034,691)	(931,588)
Gross profit		6,258	7,393
Net interest relating to oil marketing operations	19	(2,535)	(2,565)
<b>Net results of oil marketing operations</b>		<b>3,723</b>	<b>4,828</b>
Share in results of associates and joint venture	20	2,911	2,642
Staff costs		(3,966)	(3,805)
Depreciation	10	(77)	(66)
General and administrative expenses		(2,117)	(2,340)
<b>Operating profit</b>		<b>474</b>	<b>1,259</b>
Investment income	21	3,229	4,782
Other income	22	904	107
<b>Profit for the year before provisions for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and Directors' fees</b>		<b>4,607</b>	<b>6,148</b>
Contribution to KFAS		(42)	(55)
Provision for NLST	23	-	-
Provision for Zakat	24	-	-
Directors' fees		(80)	(100)
<b>Profit for the year</b>		<b>4,485</b>	<b>5,993</b>
<b>Earnings per share (fils)</b>	25	<b>31.03</b>	<b>41.43</b>

The notes set out on pages 23 to 47 form an integral part of these consolidated financial statements.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Consolidated statement of comprehensive income for the year ended 31 December 2010**

	<b>2010</b>	2009
	<b>KD'000</b>	KD'000
Profit for the year	<b>4,485</b>	5,993
<b>Other comprehensive income:</b>		
Changes in fair value of investments available for sale	<b>7,205</b>	(24)
Foreign currency translation adjustments	<b>(1,649)</b>	2,965
Movement in share of associates' hedging reserve	<b>(31)</b>	(121)
<b>Other comprehensive income for the year</b>	<b>5,525</b>	2,820
<b>Total comprehensive income for the year</b>	<b>10,010</b>	8,813

The notes set out on pages 23 to 47 form an integral part of these consolidated financial statements.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Consolidated statement of changes in equity for the year ended 31 December 2010**

	Share capital	Share premium	Legal reserve	General reserve	Fair value reserve	Share of associates' hedging reserve	Foreign currency translation adjustments	Gain on sale of treasury shares	Treasury shares	Retained earnings	Total
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
<b>Balance at 1 January 2009</b>	15,225	22,587	5,477	606	34	(298)	(3,965)	1,422	(2,379)	18,452	57,161
Total comprehensive income for the year	-	-	-	-	(24)	(121)	2,965	-	-	5,993	8,813
Dividends for 2008 (note 27)	-	-	-	-	-	-	-	-	-	(4,349)	(4,349)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(428)	-	(428)
Transfer to legal reserve	-	-	615	-	-	-	-	-	-	(615)	-
<b>Balance at 31 December 2009</b>	15,225	22,587	6,092	606	10	(419)	(1,000)	1,422	(2,807)	19,481	61,197
Total comprehensive income for the year	-	-	-	-	7,205	(31)	(1,649)	-	-	4,485	10,010
Dividends for 2009 (note 27)	-	-	-	-	-	-	-	-	-	(4,336)	(4,336)
Transfer to legal reserve	-	-	461	-	-	-	-	-	-	(461)	-
<b>Balance at 31 December 2010</b>	15,225	22,587	6,553	606	7,215	(450)	(2,649)	1,422	(2,807)	19,169	66,871

The notes set out on pages 23 to 47 form an integral part of these consolidated financial statements.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Consolidated statement of cash flows for the year ended 31 December 2010**

	Notes	2010 KD'000	2009 KD'000
<b>Operating activities</b>			
Profit for the year before provisions for contribution to KFAS, NLST, Zakat and Directors' fees		4,607	6,148
Adjustments for:			
Depreciation		1,912	2,579
Interest expense		2,695	2,599
Investment income		(3,229)	(4,782)
Share in results of associates and joint venture		(2,911)	(2,642)
Interest income		(339)	(267)
Provision for staff indemnity		401	169
		<u>3,136</u>	<u>3,804</u>
Changes in operating assets and liabilities:			
- Trade and other receivables		15,525	(72,522)
- Inventory		(17,007)	(32,944)
- Trade and other payables		(15,411)	37,020
<b>Cash used in operations</b>		<u>(13,757)</u>	<u>(64,642)</u>
Interest received		267	645
Payment to KFAS		(55)	(52)
Directors' fees paid		(100)	(80)
Payment of staff indemnity		(27)	(48)
Payment of Zakat		-	(7)
Payment for National Labour Support Tax		-	(17)
<b>Net cash used in operating activities</b>		<u>(13,672)</u>	<u>(64,201)</u>
<b>Investing activities</b>			
Purchase of property and equipment		(262)	(1,057)
Purchase of investments available for sale		-	(640)
Investment in associates	9	(752)	(692)
Dividends received		2,072	1,616
Decrease / (increase) in time deposits		374	(1,143)
Decrease in other loans		527	627
<b>Net cash generated from / (used in) investing activities</b>		<u>1,959</u>	<u>(1,289)</u>
<b>Financing activities</b>			
Increase in due to banks		15,907	66,877
Repayment of term loan		(1,029)	(1,837)
Dividends paid		(4,336)	(4,349)
Purchase of treasury shares		-	(427)
Interest paid		(2,674)	(2,723)
<b>Net cash generated from financing activities</b>		<u>7,868</u>	<u>57,541</u>
Effect of foreign currency translation		541	(182)
<b>Net decrease in cash and cash equivalents</b>		<u>(3,304)</u>	<u>(8,131)</u>
Cash and cash equivalents at beginning of the year		17,356	25,487
<b>Cash and cash equivalents at end of the year</b>	4	<u>14,052</u>	<u>17,356</u>

The notes set out on pages 23 to 47 form an integral part of these consolidated financial statements.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

### 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 Parent Company was listed on the Kuwait Stock Exchange on 10 December 1995.

The main activities of the Parent Company and its subsidiaries ("the Group") are the trading of crude oil and petroleum products, strategic investments and joint ventures in petroleum storage facilities, terminal and distribution facilities, other activities related to the petroleum industry and consulting services in the petroleum and petrochemical fields, ownership of vessels, ship chartering and other ancillary services.

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

These consolidated financial statements were authorized for issue by the Board of Directors on 10 February 2011. The Shareholders' Annual General Assembly has the power to amend these consolidated financial statements after issuance.

### 2. Significant accounting policies

#### a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared under the historical cost convention, except for the following material items that are stated at their fair value.

- Investments at fair value through statement of income
- Investments available for sale
- Derivative financial assets and liabilities
- Inventories

The consolidated financial statements are presented rounded to the nearest thousand Kuwaiti Dinars ("KD'000"), which is the Parent Company's presentation currency. The functional currency of the Group is the US Dollars ("USD").

The accounting policies applied by the Group are consistent with those used in the previous year.

#### b) Standards and Interpretations in issue not yet effective

Following standards and interpretations have been issued but are not yet effective and have not yet been adopted by the Group:

- |  |   |
|--|---|
| • IAS 24 <i>Related Party Disclosures</i> (revised 2009) | Effective for annual periods beginning on or after 1 January 2011 |
| • IFRS 9 <i>Financial Instruments</i>                    | Effective for annual periods beginning on or after 1 January 2013 |
| • <i>Improvements to IFRSs 2010</i> – various standards  | Effective for annual periods beginning on or after 1 January 2011 |

The directors anticipate that the adoption of these standards and interpretations once they become



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

effective in future periods will have no significant financial impact on the financial statements of the Company in the period of initial application except for the adoption of IFRS 9.

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. The new standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

Directors of the Group are in the process of assessing the impact of the adoption of IFRS 9 on the Group's financial instruments.

### c) Basis of consolidation

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries (see below). 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 the subsidiaries are included in the consolidated financial statements on a line by line basis from the date that control effectively commences until the date that control effectively ceases. Inter-company balances and transactions, including inter-company 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Details of the Parent Company's subsidiaries are as follows:

Name of subsidiary	Place of incorporation	Ownership interest		Principal activity
		2010	2009	
Independent Petroleum Group Limited	Bahamas	100%	100%	Trading of crude oil and petroleum products
Independent Petroleum Group of Kuwait Limited.	United Kingdom	100%	100%	Representative office
Independent Petroleum Group (Asia) Pte. Limited.	Singapore	100%	100%	Trading of crude oil and petroleum products
Independent Petroleum Group (Southern Africa) (Pty) Limited.	South Africa	100%	100%	Representative office
D&K Holdings L.L.C.	United Arab Emirates	100%	100%	Holding Company for subsidiaries in shipping

### d) Financial instruments

Financial assets and financial liabilities carried in the consolidated statement of financial position include cash on hand and at banks, investments at fair value through statement of income, trade receivables, other loans, investments available for sale, derivative financial instruments, due to banks, trade payables and term loans.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

Financial instruments are classified on initial recognition as financial assets, financial liabilities or equity in accordance with the substance of the contractual arrangement. 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.

*i. Cash and cash equivalents*

Cash and cash equivalents include cash on hand, current accounts with banks, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

*ii. Investment at fair value through statement of income*

Investments at fair value through statement of income are initially recognised at cost being the fair value, excluding transaction costs. These investments are either "held for trading" or "designated".

Held for trading investments are acquired principally for the purpose of selling or repurchasing in the near term or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Designated investments are investments which are designated as investments at fair value through statement of income on initial recognition.

After initial recognition, investments at fair value through statement of income are remeasured at fair value. Gains or losses arising either from the sale of or changes in fair value of investments at fair value through statement of income are recognised in the consolidated statement of income.

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 date of statement of financial position.

*iii. Trade receivables and loans*

Trade receivables and loans are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of income when there is objective evidence that the asset is impaired.

*iv. Investments available for sale*

Investments available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the date of statement of financial position.

Investments available for sale are initially recognised at fair value plus transaction costs. After initial recognition, investments available for sale are remeasured at fair value, except for investments in unquoted securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost. Unrealized gain or loss on remeasurement



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

of investments available for sale to fair value is recognized directly in other comprehensive income in the fair value reserve account until the investment is derecognised or 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.

v. *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.

vi. *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each date of statement of financial position. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For trade receivables, objective evidence of impairment could include:

- a) significant financial difficulty of the issuer or counterparty; or
- b) default or delinquency in interest or principal payments; or
- c) it becomes probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually, are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the specified credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Impairment losses are recognized in the consolidated statement of income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of income.

With the exception of equity investments available for sale, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of income.

In respect of equity investments available for sale, impairment losses previously recognised through the consolidated statement of income are not reversed through the consolidated statement of income. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

vii. *Bank borrowings*

Bank borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest method.

viii. *Payables*

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

ix. *Derivatives*

In the normal course of business, the Group enters into commodity swap and future contracts. These derivatives are initially recognized as an asset or liability on the commitment date. These contracts are treated as derivatives held for trading purposes, do not qualify for hedge accounting and are stated and subsequently remeasured to fair value with any resultant gain or loss recognized in the consolidated statement of income.

e) Inventory

Inventory of oil and petroleum products is valued at fair value less cost to sell. Any changes arising on the revaluation of inventories are recognised in the consolidated statement of income.

f) Investment in joint venture

Joint venture is the entity over which the Group has joint control, established by contractual agreement. Long term subordinated loans provided by the Group to the joint venture are accounted as part of the investment.

The results and assets and liabilities of joint venture are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investment in joint venture is carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of an joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of an associate.

Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

g) Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Group transacts with its associate, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### h) 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.

Freehold land is not depreciated. Other assets are depreciated on straight line basis as follows:

Buildings	20 years
Vessels	16 - 25 years
Furniture, equipment and computer software	3 - 5 years
Motor Vehicles	5 years
Leasehold improvements	Over remainder of lease

The estimated useful lives, residual values and depreciation methods are reviewed at each statement of financial position date, with the effect of any changes in estimate accounted for on prospective basis.

Properties in the course of construction for administrative or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2(n)).

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

### i) Provision for staff indemnity

Provision is made for amounts payable to employees under the Kuwait 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 statement of financial position date, and approximates the present value of the final obligation.

### j) Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (gain on sale of treasury shares) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to reserves. 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.

### k) Foreign currencies

Foreign currency transactions are translated to the functional currency (USD) at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies outstanding at the year-end are retranslated into USD at the rates of exchange prevailing at the date of statement of financial position. Any resultant gains or losses are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not subsequently retranslated.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in USD, which is the functional currency of the Parent Company. The presentation currency for the consolidated financial statements is the KD.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing at the statement of financial position date. Income and expense items are translated at the average exchange rates for the period,



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognized in the Group's foreign currency translation reserve. Such exchange differences are recognized in the consolidated statement of income in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### l) 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. Dividend income is recognised when the right to receive payment is established. Other revenues and expenses are recorded on the accrual basis.

### m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

### n) Impairment of non-financial assets

At each statement of financial position date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in consolidated statement of income.

### o) Provision

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

### p) 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.

### q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

### r) Contribution to Kuwait Foundation for the Advancement of Sciences

The Group is legally required to contribute to the Kuwait Foundation for the Advancement of Sciences ("KFAS"). The Group's contributions to KFAS are recognised as an expense in the year during which the Group's contribution is legally required.

## 3. Critical judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Parent Company's management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### a) Critical judgments in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### (i) Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

#### (ii) Provision for doubtful debts

The determination of the recoverability of the amount due from customers and the factors determining the impairment of the receivable involve significant judgment.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

(iii) Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through statement of income at inception, provided their fair values can be reliably estimated. All other investments other than investment in subsidiaries, associates and joint venture are classified as "available for sale".

(iv) Impairment of investments

The Group treats investments "available for sale" as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgment.

(v) Useful lives of property and equipment

The cost of property and equipment is depreciated over the estimated useful life of the asset. The estimated useful life is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

(vi) Impairment of property and equipment

The Group determines whether the vessel is impaired at least annually by obtaining estimates of fair value from independent valuers. Where the fair value less selling cost is lower than vessel carrying values, the estimation of recoverable value further requires an estimation of the value in use of the vessel. Estimating the value in use requires management to make an estimate of the expected future cash flows and remaining useful life of the vessel and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(vii) Residual value of the vessels

The residual value of the vessels is determined based on the estimations performed by the D&K's technical department. The estimates are calculated using the deadweight of the vessels multiplied by management's estimate of the scrap steel rate, which is partly based on the age of the vessels and quality of the steel.

### b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Sales, cost of sales and inventory

Where the sales and purchase transactions are based on forward pricing, the sales, cost of sales and inventory is estimated with reference to the closing commodity price quote (Platts) in the commodity exchange in accordance with the terms of the contract.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Notes to the consolidated financial statements for the year ended 31 December 2010**

(ii) Allowance for doubtful debts

The extent of allowance for doubtful debts involves a number of estimates made by the management. Allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The allowances and write-down of receivables is subject to management approval.

(iii) Fair value of unquoted equity investments

If the market for a financial asset is not active or not available, the Group estimates fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

**4. Cash on hand and at bank**

	2010 KD'000	2009 KD'000
Cash on hand and at bank	1,934	2,278
Call accounts and time deposits	12,118	15,078
Cash and cash equivalents	14,052	17,356
Time deposits with maturity exceeding three months	769	1,143
	14,821	18,499

During 2010, time deposits earned interest at an average effective interest rate of 0.5% (2009: 0.5%) per annum and mature within 3 to 6 months (2009: 3 to 6 months) from the date of the deposit.

**5. Investments**

	2010 KD'000	2009 KD'000
Investments at fair value through statement of income:		
<i>Held for trading:</i>		
Managed portfolios	40,977	39,564
Securities	853	948
	41,830	40,512
Investments available for sale:		
Quoted securities	182	256
Unquoted securities	9,750	1,966
	9,932	2,222

Investments at fair value through statement of income with a carrying amount of KD 40,977 thousands (31 December 2009: KD 39,564 thousands) are pledged as collateral against amounts due to banks (note 11).

The fair market value of securities under investments at fair value through statement of income represents the latest available quotation.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Notes to the consolidated financial statements for the year ended 31 December 2010**

During the year, the Group has fair valued its investment in Vopak Horizon Fujairah Limited (VHFL) (unquoted security), based on the actual purchase consideration paid for the acquisition of an additional stake in the said investment. Consequently, a sum of KD 7,273 thousands has been recognized as fair value reserve under equity through the statement of comprehensive income for changes in fair value of investments available for sale. During the year, the Group had earned a dividend income of KD 540 thousands from VHFL and this had been reinvested in form of a subordinated loan for the expansion of the project and hence included in the carrying amount of VHFL investment as of 31 December 2010. Accordingly, unquoted securities include investment of 11.1% in VHFL carried at fair value of KD 8,612 thousands (31 December 2009: carried at cost of KD 829 thousands).

The unquoted securities also include an investment of 12.5% in Asia Petroleum Ltd. carried at cost of KD 1,137 thousands as it was not possible to reliably measure the fair value since there is no active market; accordingly this is stated at cost.

**6. Trade and other receivables**

	2010 KD'000	2009 KD'000
Trade receivables	130,460	145,836
Prepaid expenses	892	810
Refundable deposits and taxes	28	49
Others	543	681
	<b>131,923</b>	<b>147,376</b>

The Group's credit period varies from customer to customer. Trade receivables are short term in nature and carry interest rates on commercial terms. A significant portion of trade receivables are due within three months from the date of the statement of financial position.

During the year ended 31 December 2009, the Group initiated arbitration proceedings against one of its customers in order to obtain an award for an immediate payment of its trade receivable amounting to USD 68.35 million (KD 19.11 million). The external legal counsel's present expectation is that the award would be secured in the Group's favour, considering that the debt was acknowledged by the customer through a letter dated 5 June 2009 and the customer did not contest the arbitration request submitted by the Group. The Group has already declared the facts of the case to its shareholders through the Kuwait Stock Exchange during that year and subsequently. Accordingly, and based on the Group's external legal counsel's advice, the accompanying consolidated financial statement do not include any provision against this balance.

**7. Other loans**

	2010 KD'000	2009 KD'000
Inpetro Petroleum Terminals Project:		
Inpetro SARL	2,136	2,547
Petroleos De Mocambique SARL (Petromoc)	803	821
National Oil Company of Zimbabwe (NOCZIM)	17	17
	<b>2,956</b>	<b>3,385</b>
Arabtank Terminals Limited	656	672
Others	570	652
	<b>4,182</b>	<b>4,709</b>



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

The Group has provided a long-term subordinated loan to Arabtank Terminals Ltd., Saudi Arabia.

Others comprise a loan of KD 84 thousands (2009: KD 86 thousands) to the Government of Djibouti and KD 43 thousands (2009: KD 43 thousands) to Essence Management Ltd.

The interest rates for the above loans vary from 0 % to 8% (2009: 0% to 8%) per annum for loans given at fixed interest rates and 3.5% (2009: 3.5%) over three months LIBOR for loans given at floating interest rates.

### 8. Investment in joint venture

	2010 KD'000	2009 KD'000
Uniterminals S.A.L., Lebanon	<b>3,180</b>	3,263

#### Uniterminals S.A.L.

The Group has a 50% equity shareholding with equivalent voting power in Uniterminals Ltd, Lebanon.

The Group's share of 50% in the net assets and results of Uniterminals S.A.L., Lebanon included in these consolidated financial statements was based on the audited financial statements for the year ended 31 December and was as follows:

	2010 KD'000	2009 KD'000
Total assets	<b>23,264</b>	12,097
Total liabilities	<b>(20,084)</b>	(8,834)
<b>Net assets</b>	<b>3,180</b>	3,263
Operating profit	<b>588</b>	706
Loan interest and other expenses	<b>(240)</b>	(404)
<b>Profit for the year (note 20)</b>	<b>348</b>	302

### 9. Investment in associates

	Percentage of ownership	2010 KD'000	2009 KD'000
Inpetro SARL	40%	<b>116</b>	378
ArabTank Terminals Ltd., Saudi Arabia (ATT)	36.5%	<b>2,563</b>	2,210
Horizon Djibouti Holdings Ltd. (HDHL)	22.22%	<b>3,321</b>	2,731
Horizon Singapore Terminals Private Ltd., Singapore (HSTPL)	15%	<b>5,277</b>	4,830
Horizon Tangiers Terminals SA. (HTTSA)	32.5%	<b>4,215</b>	3,557
		<b>15,492</b>	13,706



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Notes to the consolidated financial statements for the year ended 31 December 2010**

**Inpetro SARL**

The Group's investment in Inpetro SARL represents an investment in a petroleum storage terminal. The Group's share in the net assets and results of Inpetro SARL was based on the audited financial statements for the nine month period ended 30 September 2010 (2009: for the nine month period ended 30 September 2009) and management accounts for the three month period ended 31 December 2010 (2009: for the three month period ended 31 December 2009).

	<b>2010</b>	2009
	<b>KD'000</b>	KD'000
Total assets	<b>2,995</b>	3,215
Total liabilities	<b>(2,879)</b>	(2,837)
<b>Net assets</b>	<b>116</b>	378
Operating income	<b>776</b>	856
Operating expenses	<b>(819)</b>	(909)
<b>Loss for the year (note 20)</b>	<b>(43)</b>	(53)

**ArabTank Terminals Ltd., Saudi Arabia (ATT)**

The Group's investment in ATT represents its share of investment in the first phase of the project towards chemical product storage facilities and its share in the second phase of the project towards petroleum product storage facilities.

The Group's share in the net assets and results of ATT included in the consolidated financial statements was based on the audited financial statements for the year ended 31 December and was as follows:

	<b>2010</b>	2009
	<b>KD'000</b>	KD'000
Total assets	<b>7,837</b>	7,988
Current liabilities	<b>(1,109)</b>	(1,838)
Long-term debt	<b>(4,165)</b>	(3,940)
<b>Net assets</b>	<b>2,563</b>	2,210
Operating income	<b>1,217</b>	1,228
Operating expenses	<b>(807)</b>	(692)
<b>Profit for the year (note 20)</b>	<b>410</b>	536



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Notes to the consolidated financial statements for the year ended 31 December 2010**

**Horizon Djibouti Holdings Ltd ("HDHL")**

The Group's investment in Horizon Djibouti Holdings Ltd., Djibouti represents an investment in a petroleum storage terminal. The Group's share in the net assets and results of HDHL included in the consolidated financial statements was based on the audited financial statements for the year ended 31 December and was as follows:

	<b>2010</b>	2009
	<b>KD'000</b>	KD'000
Total assets	<b>6,528</b>	5,903
Total liabilities	<b>(3,207)</b>	(3,172)
<b>Net assets</b>	<b>3,321</b>	2,731
Operating income	<b>1,393</b>	1,399
Operating expenses	<b>(716)</b>	(858)
<b>Profit for the year (note 20)</b>	<b>677</b>	541

**Horizon Singapore Terminals Private Ltd., Singapore ("HSTPL")**

The Group's investment in HSTPL represents 15% share in the issued and paid-up share capital. As per the shareholders' agreement dated 29 March 2005, all commercial, technical and operating policy decisions require the approval of shareholders together holding not less than 86% of the issued share capital of the investee company. On this basis the Group has significant influence but not overall control over the financial and operating policy decisions of the investee company. The Group's share in the net assets and results of Horizon Singapore Terminals Private Ltd., Singapore, included in the consolidated financial statements was based on the audited financial statements for the year ended 31 December and was as follows:

	<b>2010</b>	2009
	<b>KD'000</b>	KD'000
Total assets	<b>14,460</b>	14,214
Total liabilities	<b>(9,183)</b>	(9,384)
<b>Net assets</b>	<b>5,277</b>	4,830
Operating income	<b>3,539</b>	2,635
Operating expenses	<b>(2,020)</b>	(1,319)
<b>Profit for the year (note 20)</b>	<b>1,519</b>	1,316

**Horizon Tangiers Terminals SA. ("HTTSA")**

During the year, the Group invested an additional KD 752 thousands (2009: KD 692 thousands) towards its share of 32.5% in HTTSA representing investment in petroleum storage terminal in Morocco. Since all the shareholders contributed their proportionate share in the increase of share capital, the Group's ownership interest in Horizon Tangiers Terminals SA. remains unchanged. The investment in HTTSA is carried at cost, as the associate is yet to commence business operations.



**Notes to the consolidated financial statements for the year ended 31 December 2010**

**10. Property and equipment**

	Land KD'000	Buildings KD'000	Vessels KD'000	Furniture, equipment and computer software KD'000	Motor vehicles KD'000	Leasehold improvements KD'000	Capital work- in-progress KD'000	Total KD'000
<b>Cost</b>								
As at 1 January 2009	544	892	29,602	610	46	53	513	32,260
Additions	-	-	545	37	27	-	449	1,058
Currency translation effects	-	-	753	31	2	8	-	794
As at 31 December 2009	544	892	30,900	678	75	61	962	34,112
Additions/Transfer	-	800	109	315	-	-	(962)	262
Currency translation effects	-	-	(1,704)	(16)	(2)	(4)	-	(1,726)
As at 31 December 2010	544	1,692	29,305	977	73	57	-	32,648
<b>Accumulated depreciation</b>								
As at 1 January 2009	-	891	10,742	474	39	53	-	12,199
Charge for the year	-	-	2,513	53	13	1	-	2,580
Currency translation effects	-	-	-	24	2	7	-	33
As at 31 December 2009	-	891	13,255	551	54	61	-	14,812
Charge for the year	-	10	1,835	62	5	-	-	1,912
Currency translation effects	-	-	(780)	(13)	(2)	(4)	-	(799)
As at 31 December 2010	-	901	14,310	600	57	57	-	15,925
<b>Carrying amount</b>								
As at 31 December 2010	544	791	14,995	377	16	-	-	16,723
As at 31 December 2009	544	1	17,645	127	21	-	962	19,300

The charter vessels have been collateralised for the term loan (note 13).

Depreciation charge of KD 1,835 thousands (2009: KD 2,514 thousands) for the year is included in cost of sales in the consolidated statement of income.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Notes to the consolidated financial statements for the year ended 31 December 2010**

**11. Due to banks**

Due to banks represents the credit facilities in KD and USD provided by the Group's banks. These facilities carry an average interest rate of 3% (2009: 3%) per annum. Due to banks are partially secured by investments at fair value through statement of income with a carrying amount of KD 40,977 thousands (31 December 2009: KD 39,564 thousands) (note 5).

**12. Trade and other payables**

	2010 KD'000	2009 KD'000
Trade payables	48,209	60,126
Accrued expenses	15,525	20,040
Accrued staff leave	464	411
Provision for KFAS	42	55
Others	3,894	2,905
	68,134	83,537

**13. Term loan**

The term loan relates to the financing of two vessels acquired through the subsidiary DKHL. The term loan is denominated in USD and is secured by the mortgage of the vessels and carries interest ranging from 1.75% to 4.35% (2009: 2% to 4.5%) per annum.

**14. Provision for staff indemnity**

	2010 KD'000	2009 KD'000
Balance at beginning of the year	1,516	1,395
Charge for the year	401	169
Payments made during the year	(27)	(48)
Balance at end of the year	1,890	1,516

**15. Share capital**

The authorised, issued and fully paid up share capital consists of 152,250,000 shares of 100 fils each (2009: 152,250,000 shares of 100 fils each).

**16. 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 provisions for contribution to KFAS, NLST, Zakat and directors' fees has been transferred to the legal reserve. The Parent Company may resolve to discontinue such annual transfers when this reserve reaches a minimum of 50% of the paid up share capital. Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5% of the paid up share capital in years when retained earnings are not sufficient for payment of such dividends.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Notes to the consolidated financial statements for the year ended 31 December 2010**

**17. General reserve**

In accordance with the Parent Company's Articles of Association, 10% of the profit for the year before provisions for contribution to KFAS, NLST, Zakat and directors' fees is to be transferred to the general reserve. The transfer was discontinued 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.

**18. Treasury shares**

	2010	2009
Number of shares	7,720,000	7,720,000
Percentage of issued shares	5.07%	5.07%
Market value (KD'000)	3,435	3,281
Cost (KD'000)	2,807	2,807

**19. Net interest relating to oil marketing operations**

	2010 KD'000	2009 KD'000
Interest income	160	35
Interest expense	(2,695)	(2,600)
	(2,535)	(2,565)

**20. Share in results of associates and joint venture**

	2010 KD'000	2009 KD'000
Inpetro SARL (note 9)	(43)	(53)
Arabtank Terminals Ltd. (note 9)	410	536
Horizon Djibouti Holdings Ltd (note 9)	677	541
Horizon Singapore Terminals Private Ltd., Singapore (note 9)	1,519	1,316
Uniterminals S.A.L. (note 8)	348	302
	2,911	2,642

**21. Investment income**

	2010 KD'000	2009 KD'000
Unrealised gain from investments at fair value through statement of income	2,246	4,315
Dividend income	983	467
	3,229	4,782



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Notes to the consolidated financial statements for the year ended 31 December 2010**

**22. Other income**

	2010 KD'000	2009 KD'000
Net foreign exchange gain/ (loss)	632	(237)
Interest income related to project	179	233
Miscellaneous income	93	111
	904	107

**23. Provision for NLST**

During 2006, the Group filed a suit against the Ministry of Finance contesting their claim for additional amount of KD 442 thousands towards NLST for the year from 2001 to 2004. This claim represents difference between NLST computed on the annual consolidated profit of the Group and that based on annual profit of the Parent Company.

A judgement was granted in favour of the Group in the suit filed as mentioned above. Accordingly, the Group continued to account for NLST based on the annual profit of the Parent Company for the years from 2005 to 2010. The Group continued with their claim against the ministry for the outstanding amount for 2005 and 2006.

NLST has not been provided, since there was no profit for the Parent Company on which NLST could be calculated.

**24. Provision for Zakat**

Provision for Zakat is calculated at 1% of the profit of the Parent Company after deducting its share of income from Kuwaiti shareholding subsidiaries and associates in accordance with Ministry of Finance resolution No. 58/2007 effective December 10, 2007.

Zakat has not been provided, since there was no profit for the Parent Company on which Zakat could be calculated.

**25. Earnings per share**

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2010 KD'000	2009 KD'000
Profit for the year	4,485	5,993
	<b>Shares</b>	<b>Shares</b>
Weighted average number of issued shares outstanding	152,250,000	152,250,000
Weighted average number of treasury shares outstanding	(7,720,000)	(7,601,370)
Weighted average number of shares outstanding	144,530,000	144,648,630
Earnings per share (fils)	31.03	41.43



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Notes to the consolidated financial statements for the year ended 31 December 2010**

**26. Proposed dividends**

The Board of Directors propose a cash dividend of 30 fils per share (2009: 30 fils per share). This proposal is subject to the approval of the Shareholders' Annual General Assembly.

**27. Annual general assembly**

The Shareholders' Annual General Assembly held on 3 March 2010 approved the annual audited consolidated financial statements for the year ended 31 December 2009 and payment of a cash dividend of 30 fils per share for the year ended 31 December 2009 (2008: 30 fils per share).

**28. Related party transactions**

These represent transactions with the related parties in the normal course of business. The terms of these transactions are on negotiated contract basis.

The related party transactions and balances included in the consolidated financial statements are as follows:

	Joint Ventures	Associates	Other related parties	Total 2010	Total 2009
	KD'000	KD'000	KD'000	KD'000	KD'000
<b>1. Revenues:</b>					
Sales	95,669	-	-	95,669	62,885
Storage expense	-	3,495	-	3,495	4,218
	Joint Ventures	Associates	Other related parties	Total 2010	Total 2009
	KD'000	KD'000	KD'000	KD'000	KD'000
<b>2. Due from / to related parties:</b>					
Trade and other receivables	27,931	60	-	27,991	18,431
Trade and other payables	6	1,950	-	1,956	1,150
Others and short-term loans	-	2,793	1,389	4,182	4,709
				<b>2010</b>	<b>2009</b>
				KD'000	KD'000
<b>3. Key management compensation</b>					
Salaries and other short-term benefits				775	691
Terminal benefits				223	68
				<b>998</b>	<b>759</b>





**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Notes to the consolidated financial statements for the year ended 31 December 2010**

**30. Financial Instruments and risk management**

**Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 2 to the consolidated financial statements.

**Categories of financial instruments**

	2010 KD'000	2009 KD'000
<b>Financial assets</b>		
Cash on hand and at banks	14,821	18,499
Investments at fair value through statement of income	41,830	40,512
Trade and other receivables	131,923	147,376
Other loans	4,182	4,709
Investments available for sale	9,932	2,222
	<b>202,688</b>	<b>213,318</b>
<b>Liabilities</b>		
Due to banks	167,326	151,419
Directors' fees payable	80	100
Trade and other payables	68,134	83,537
Term loan	4,958	5,987
	<b>240,498</b>	<b>241,043</b>

**Financial risk management objectives**

The Group's Management provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency risk, interest rate risk and equity price risk), credit risk and liquidity risk.

**Market risk**

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risk of changes in interest rates and equity prices. The Group is not exposed to foreign currency risk as most of its financial assets and liabilities are denominated in USD.

*Interest rate risk*

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. The Group also places short-term deposits with banks.



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

### *Interest rate sensitivity analysis*

At 31 December 2010, if interest rates on borrowings (due to banks and term loan) and short-term deposits had been 1% higher / lower with all other variables held constant, profit for the year would have been KD 1,594 thousands (2009: KD 1,412 thousands lower / higher), mainly as a result of higher / lower interest expense on borrowings and higher / lower interest income on short term deposits.

The Group's exposures to interest rates on short-term deposits, due to banks and term loan are detailed in notes 4, 11 and 13 respectively to the consolidated financial statements.

### *Equity price risk*

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment in equity securities classified as 'at fair value through income statement' and 'available for sale'.

As at December 2010, if the net asset value of the managed portfolio would have increased by 5% (2009: 5%), the profit would have increased by KD 2,049 thousands (2009: KD 1,978 thousands). The effect on other comprehensive income due to equity price risk is insignificant as the quoted available for sale investments are not significant.

### **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management.

### *Exposure to credit risk*

The financial instruments which potentially subject the Group to credit risk consist of current and call accounts at banks, time deposits, loans and trade and other receivables. The Group places its cash and time deposits 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 major oil companies of high credit rating, and governmental institutions.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of current and call accounts at banks, time deposits, loans and trade and other receivables.

### **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

All the financial liabilities of the Group except the non-current portion of term loan are due within one year. In the case of the term loan, KD 898 thousands (2009: KD 918 thousands) is due within one year and KD 4,060 thousands (2009: KD 5,069 thousands) is due between one and seven years.

### **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



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

## Notes to the consolidated financial statements for the year ended 31 December 2010

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 does not have access to relevant information in order to reliably measure the fair value of the unquoted securities that are available-for-sale except for VHFL as disclosed in note 5. 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.

### *Fair Value Estimation*

Amended IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of investments at fair value through statement of income amounting to KD 41,830 thousands (2009: KD 40,512 thousands) and securities under available-for-sale investments amounting to KD 182 thousands (2009: KD 256 thousands) are determined only based on Level 1 fair value measurement which is the quoted market prices prevailing at the statement of financial position date except for security classified under held for trading category as disclosed in note 5.

The fair value of investment in VHFL, classified as investments available for sale is determined based on Level 3 fair value measurement which is based on the Discounted Cash Flow method of valuation.

Accordingly, during the year ended 31 December 2010, there were no transfers between Level I and other levels of fair value measurement.

### *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 statement of financial position date. The estimated fair values of these contracts are as follows:

		Notional amount 2010 KD'000	Notional amount 2009 KD'000	Fair value 2010 KD'000	Fair value 2009 KD'000
Swap contracts	Buy	<b>67,842</b>	35,159	<b>53,198</b>	28,517
Swap contracts	Sell	<b>69,056</b>	55,146	<b>54,558</b>	48,651
Future contracts	Buy	<b>180,204</b>	47,791	<b>184,188</b>	45,086
Future contracts	Sell	<b>253,317</b>	65,941	<b>259,775</b>	64,155



**Independent Petroleum Group**  
Company S.A.K. (Closed) and Subsidiaries  
State of Kuwait

**Notes to the consolidated financial statements for the year ended 31 December 2010**

**31. Capital risk management**

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's strategy remains unchanged from 2009.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash on hand and at banks. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The capital structure of the Group consists of debt, which includes due to banks and term loan as disclosed in notes 11 and 13 and cash on hand and at banks as disclosed in note 4 and equity comprising issued capital, reserves, treasury shares and retained earnings as disclosed in notes 15, 16, 17 and 18 respectively.

	2010 KD'000	2009 KD'000
Due to banks and term loan (note 11 & 13)	172,284	157,406
Less: cash on hand and at banks (note 4)	(14,821)	(18,499)
Net debt	157,463	138,907
Total equity	66,871	61,197
Total capital resources	224,334	200,104
Gearing	70%	69%

**32. Contingent liabilities and commitments**

	2010 KD'000	2009 KD'000
Contingent liabilities:		
Letters of guarantee and bid bonds	10,449	11,483
Letters of credit	85,701	77,551
	96,150	89,034
Commitments:		
Investments in projects	14,232	9,146