



# 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.

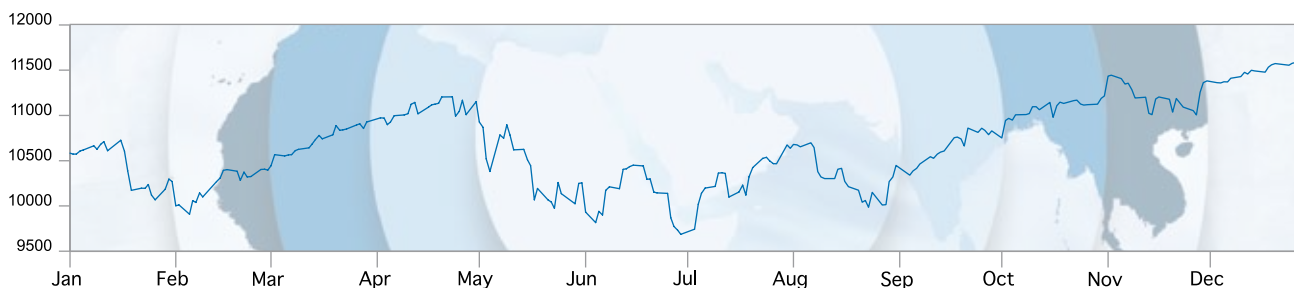
The international stock markets witnessed during the year, some fluctuations in prices, dropping in the first half and rising again during the second half. In the US, the Dow Jones index rose by about 11% and the Nasdaq by about 17%.

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.

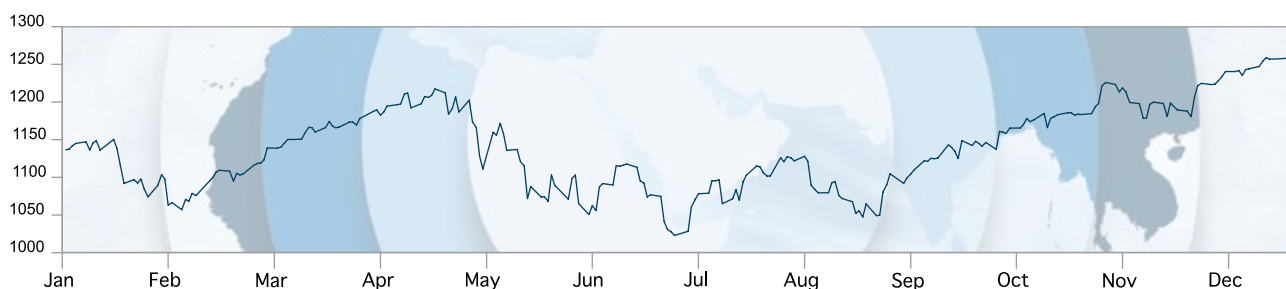
The pattern in Oil demand has gradually shifted more towards Asian countries and less towards North American and European countries, reflecting the differences in economic growth between the two economic blocks. It is expected that the Middle East oil producing countries will not be able to meet the 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.

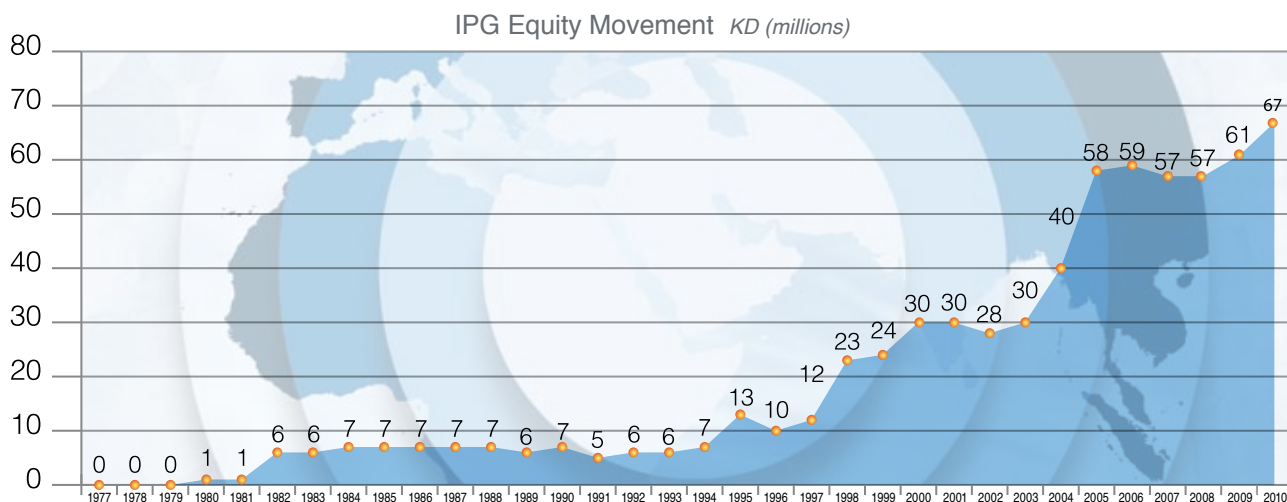
As to the Global scene, the explosion of the BP oil well in the Gulf of Mexico had a major impact on the oil industry, forcing BP to spend billions of dollars to control one of the largest oil spills and pollution in the history of the American oil industry. This catastrophe is expected to cause more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



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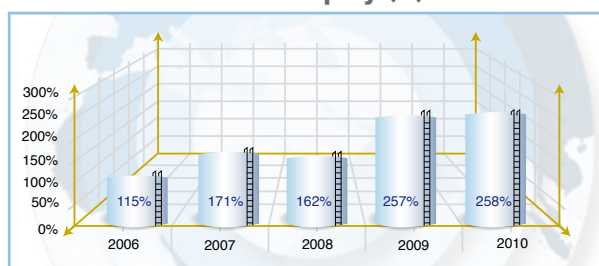
## • Trading Activities in East Africa

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.

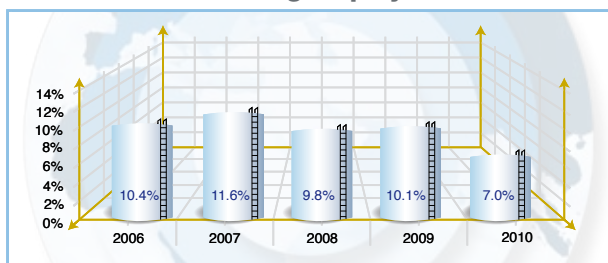
## • Trading Activities in the Mediterranean and Black Sea

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.

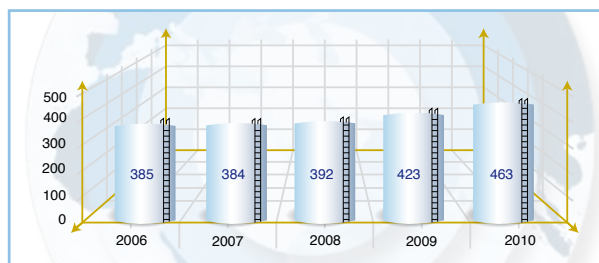
**Debt to Equity (%)**



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



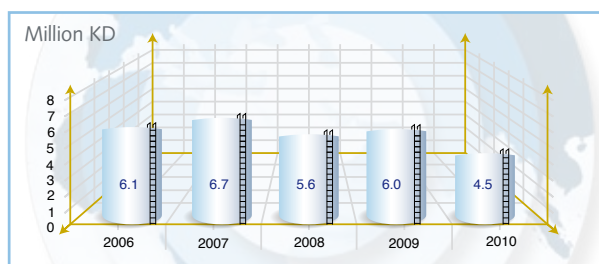
**Book Value Per Share (Fils)**



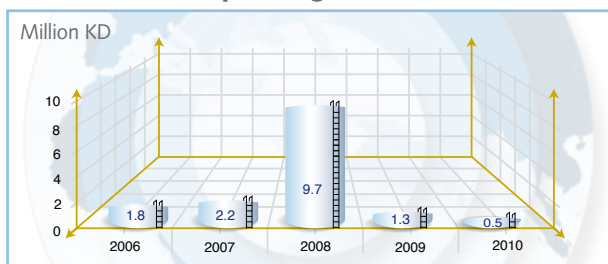
## • Trading Activities in India and the Far East

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.

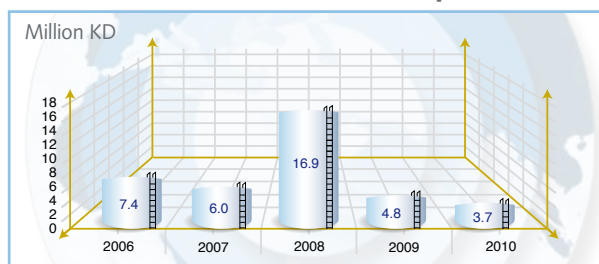
**Net Profit**



**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.

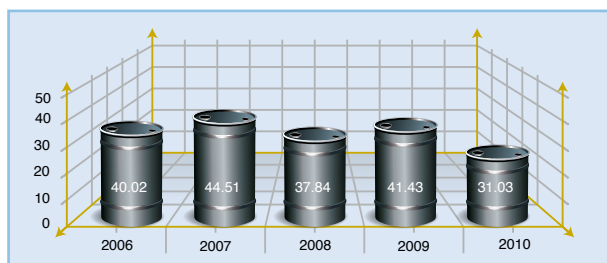
### • Marine and Shipping

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.

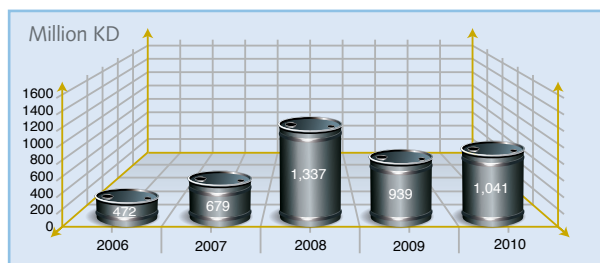
### Business & Projects Development

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.

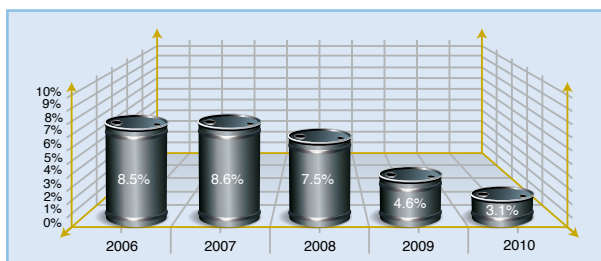
EPS (FILS)



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.



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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





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### 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)





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### 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)



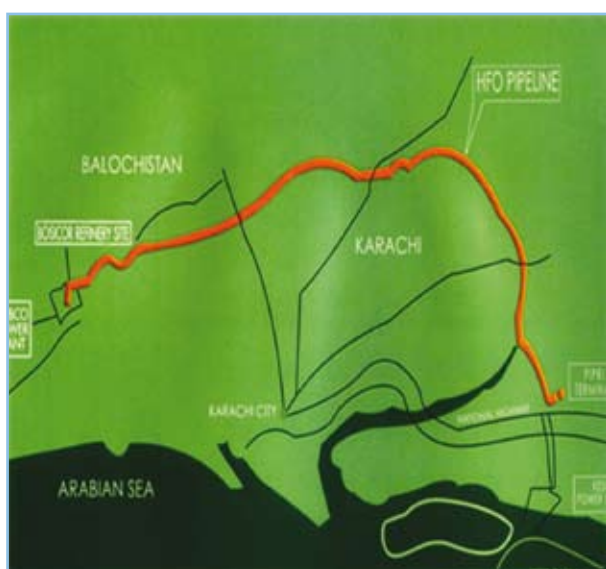


## 8. Asia Petroleum Limited (APL) – Pakistan: (IPG share 12.5% - Associate Company)

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

