

## Report of the Board of Directors for 2012

### Message to the Shareholders

#### Dear Shareholders,

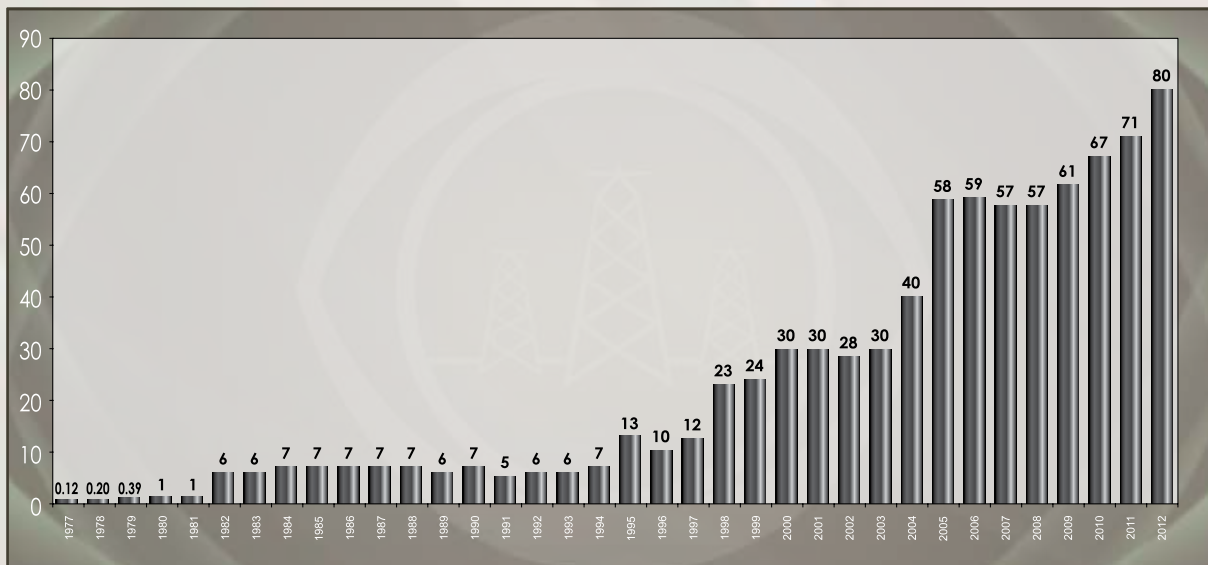
The Board of Directors is pleased to present to its shareholders the 36th Annual Report on the performance of the Independent Petroleum Group (IPG) and its operations for the year 2012.

As anticipated by IPG at the beginning of 2012, the adverse events and external circumstances which occurred during 2011 leading to losses, first of its kind since 1996, were not repeated in 2012, enabling IPG to realize profit of KD 5.8 Million or 40.35 Fils /Share.

IPG experienced significant events during the year 2012, notably the collection of the full outstanding debt (about KD 24 Million) from one of its customers, which included the principal amount plus accumulated interest and legal costs. IPG was also awarded a contract to supply oil products to the Ethiopian Petroleum Supply Enterprises which was performed successfully. This contract is expected to be renewed for the year 2013 as well. IPG also adopted utmost care in optimizing the volumes of stored oil by employing hedging mechanism to mitigate the associated risks and minimize the losses. In the area of shipping, a single hull vessel was sold during the year as IPG is in the process of renewing its shipping fleet in order to cope with the requirement of International Maritime Law.

Crude oil prices fluctuated up and down during 2012. It reached US\$ 126.62 per barrel during the month of March and dropped down to \$ 91.23 at the end of May. At year end, the price settled at \$ 108.93. This wide fluctuation of prices reflected the varying perceptions and assumptions considered to resolve the financial crisis in Europe as well as the effects of the volatile political factors in the Middle East & North Africa.

### IPG's Equity Movement (KD Million)





## 36 Years of Establishment

Global Financial Markets witnessed volatile price fluctuations due to the European Sovereign-debt crisis in Greece, Spain, Portugal and Italy. The Dow Jones index ranged between 12,000 points during June and 13,600 points at the end of the year. The NASDAQ index also moved from 2,740 to 3,150 points during the same period. Despite the unstable state of the Global Financial Markets, the Company's Financial Portfolios managed by International Banks realized good results compared to the performance during 2011.

### S&P 500 and Dow Jones Movement during 2012



## Summary of the Company's results for 2012

### Marketing & Trading Activity

Despite the price fluctuations in the Global Oil Market, IPG managed to market 4.1 Million tons of oil i.e. 85,000 barrels per day, representing 85.7 % of the planned sales of 4.7 Million tons for the year.

### Trading Activity in the Gulf and the Red Sea

Close cooperation continued between IPG and the National Oil Producing Companies such as Bahrain Petroleum Company (BAPCO), Saudi Aramco, State Oil Marketing Organization of Iraq (SOMO), PETRONAS of Malaysia, Aden Refinery Company of Yemen (ARC), Ethiopian Petroleum Supply Enterprises (EPSE), Ministry of Energy and Water of Zambia (MEWD) and The National Oil Company of Malawi (NOCMA). IPG also increased its cooperation with Major Oil companies such as EXXONMOBIL, SHELL, BP, TOTAL and CHINA OIL.

In addition to the above, IPG maintained good cooperation with International Oil Trading Companies such as GLENCORE, ITOCHU, TRAFIGURA, VITOL and LITASCO.

### Trading Activity in East Africa

Due to the economic crisis and the increased competition in Europe, certain International Oil Trading Companies sought to enter the East African Markets, forcing a decrease in our sales volumes in Zimbabwe and Mozambique. However, IPG maintained its contracts with the National Oil Company of Malawi (NOCMA) and it successfully completed the crude oil shipments to The Ministry of Energy and Water Development (MEWD) of the Republic of Zambia.

### Trading Activity in the Mediterranean Sea and the Black Sea

IPG's activities expanded to the Eastern region of the Mediterranean, especially in Lebanon, where it increased its sales to Uniterminals (a Company 50% owned by IPG). Total sales in the Mediterranean and the Black Sea reached about 1.1 Million tons, mainly diesel but also some fuel oil, jet and asphalt. Cooperation continued with HELLAS Motor Oil of Greece, LITASCO of Russia and Ocean Energy of Georgia.

### Trading Activity in India and the Far East

Compared to last year, purchasing of products from the Indian refineries has decreased due to poor economic returns. A small quantity of diesel, however, was purchased from Mangalore Refinery and Petrochemicals Limited (MRPL). IPG has also subleased the tanks in Singapore which are leased by IPG from Horizon Singapore Terminal Limited and in which IPG holds 15% share.

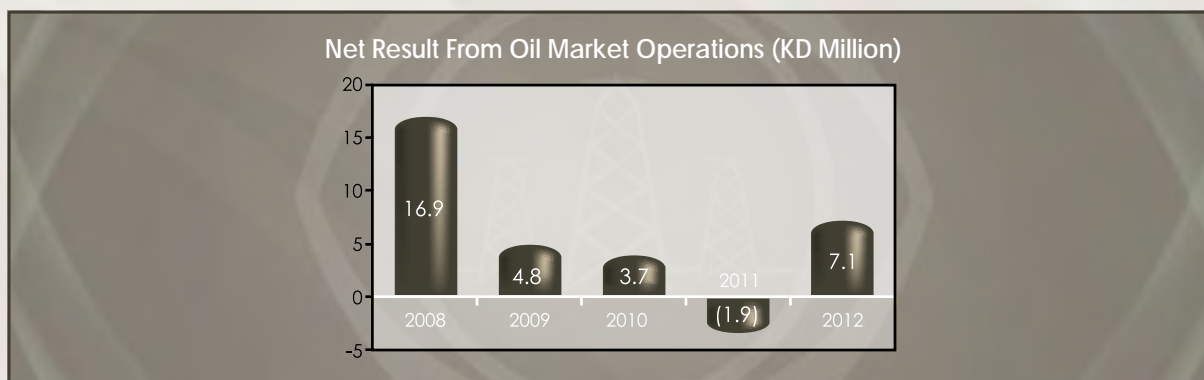
### Shipping

During mid-2012, the Oil Tanker MT Gulf Star was sold. IPG continued to use the new vessel (D&K Yusuf I. Al Ghanim) as well as the long-term-chartered vessel D&K1. IPG also fixed some 41 tankers in the spot markets. In all, these made 144 voyages moving about 4.1 Million tons.



### Storage of Petroleum Products

Storage capacity in all the projects in which IPG is a shareholder reached 4.7 Million cubic meters, of which IPG owns approximately 850,000 cubic meters, ranging in ownership between 11% - 50%. As the negative impact of the Arab Spring receded during 2012, IPG was not compelled as it did in 2011 to store large quantities of oil, committed to supply some countries, which could not honor their contracts. Accordingly, the related losses of 2011 were not repeated during 2012.



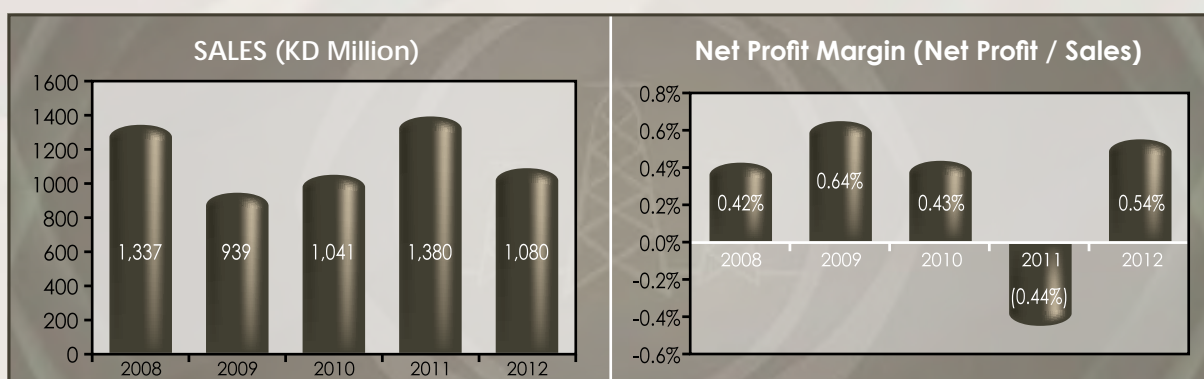
## Business & Projects Development

IPG continued to implement its Income Diversification Strategy through the development of investments (storage facilities and petroleum products pipelines) that not only enhance and complement the marketing operations of IPG but also are economically viable on a standalone basis. As a result of such continued efforts, adequate progress has been achieved in the development of investment opportunities in Mozambique, Zimbabwe and other countries in close cooperation with other strategic partners (National Oil Companies and Local and International Institutions). Some of these investment opportunities are expected to enter the project construction phase during 2013. Over the past years, IPG has strategically invested its resources in order to develop and build petroleum products storage facilities and complementary logistic facilities such as jetties. IPG along with its Partners continue to coordinate and follow up the projects under construction and or expansion.

## Finance & Treasury

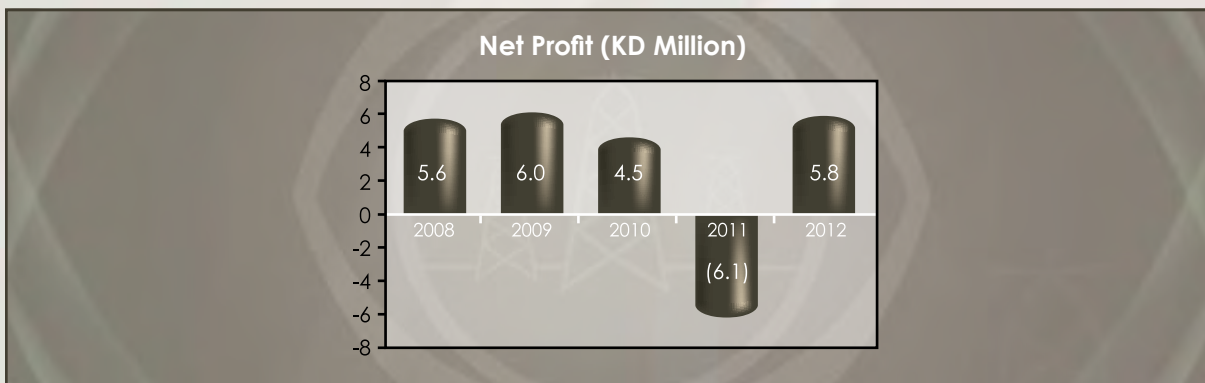
The 2010 Global economic crisis and fluctuations continued to lay their shadows on the year 2012, where the Euro Zone has witnessed more financial instability and risks. These negative effects caused an increase in the cost of finance for IPG's trading operation. In spite of all that, IPG has succeeded to achieve in 2012 the required balance in interest rates through the diversification of the sources of finance for its operations from various local, regional and global banks.

Furthermore, the collection of about KD 24 Million, being an amount due from one of the customers, had a great positive impact on the Company thus reinforcing its relations with local and global banks and rendering IPG as a reliable and credit-worthy institution.



## Human Resources Department

IPG deems its human resources to be its true capital. Therefore it considers its investments in human resources as a long term strategic goal. IPG persistently seeks to develop its plans in that field to attract and implement effective concepts to strengthen its human resources. During 2012, 10 employees were recruited, bringing the total number of employees at the Head Office and other branches to 112. Despite the lower number of employees recruited in 2012 compared to the target figures made in the plan, IPG will do its best to look for qualified persons to fill the positions budgeted for 2013.



## Information Technology

In line with Top Management's recommendation to cut down on costs for 2012, the IT Department implemented a cost saving plan, focusing only on the utmost necessary projects required to improve security, both internally and externally. To this extent, two projects were executed. The first focused on email security, where a new up to date mail security device was purchased, configured and implemented. This will guarantee that all types of emails will reach IPG after each being checked and filtered into its proper folder and none will be lost or rejected.

The second project was meant to enhance the internal security and, at the same time, give all the employees better experience surfing the net and using all types of applications without affecting the total internet bandwidth allocated for official usage. In addition, the department replaced all laptops and desktops which completed three years of service, to ensure efficiency and reliability at all times.

## Legal Affairs

The year 2012 has witnessed the greatest achievement of IPG's Legal Department, namely the winning and enforcement of the Arbitration Award against one of its customers, hence obliging the latter to pay all outstanding amounts, interest and legal cost.

Moreover, the Department contributed towards smooth, efficient and effective functioning of other Departments and overseas affiliates and subsidiaries by rendering tailor-made legal advices on various International Agreements signed by IPG throughout the year 2012.

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

## The Board of Directors