Report of the Board of Directors for 2016

Message to the Shareholders

Dear Shareholders,

On behalf of the Board of Directors I am pleased to present to the shareholders the 40th Annual Report of the performance of the Independent Petroleum Group (IPG) for the year 2016.

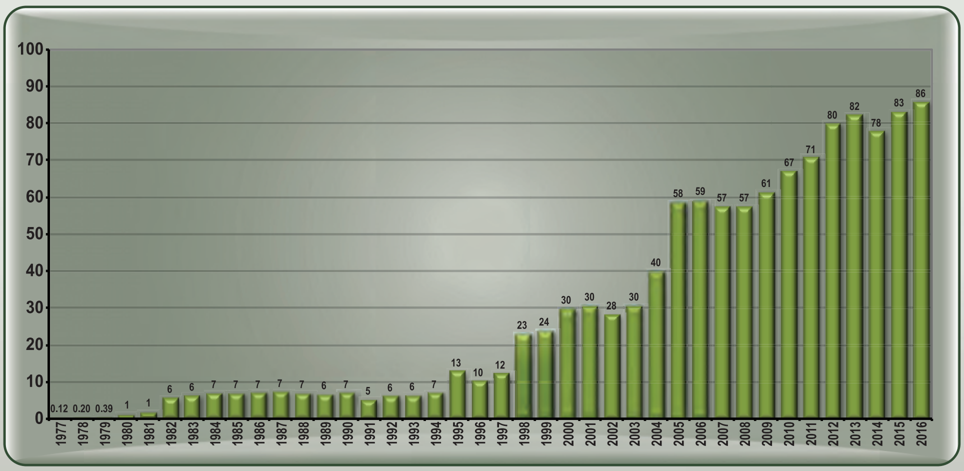
It has been forty years since the establishment of IPG on September 11th, 1976. These forty years were full of challenges, with minor failures and major successes. IPG managed to survive against sharp turmoil and fluctuations in the global financial and oil markets. During the course of these forty years, IPG's initial capital has increased from 690,000 Kuwaiti Dinars to KD 15,225,000 today. At the end of 2016, the shareholder's equity has also increased to 85,724,000 Kuwaiti Dinar. IPG was listed in the Kuwait Stock Exchange on December 10th, 1995. IPG's growth was also manifested in the number of staff which increased from three (3) in 1976 to 122 at the end of 2016. The number of offices and subsidiaries also increased to ten: in Kuwait, Singapore, London, Mozambique, South Africa, Zimbabwe, Dubai, Morocco, Zambia and Lebanon.

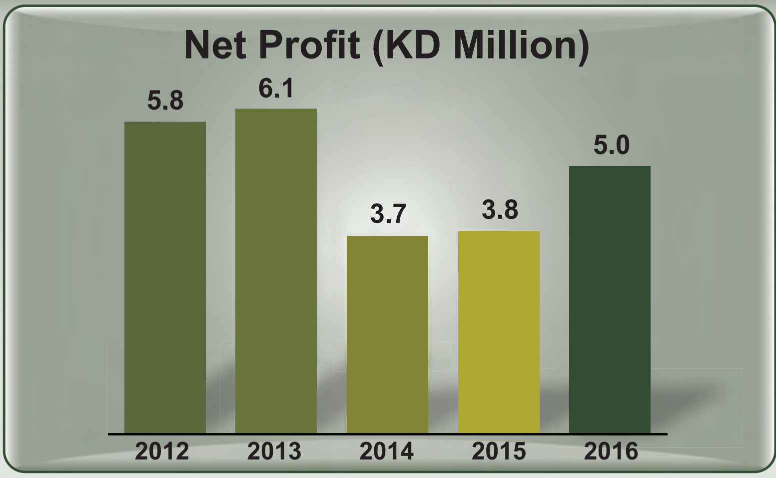
The year 2016 was full of surprises casting a shadow of uncertainties on trends in the oil and global money markets. The first among these was the British exit from the European Union, while the second was Trump's victory in the American presidential elections. Furthermore, the recent unexpected OPEC Agreement to limit the oil production has given rise to oil prices during the last quarter of this year. Nevertheless, IPG maintained a good performance attaining a net profit in 2016 of 5.008 Million Kuwaiti Dinar i.e. equivalent to 34.63 Fils per Share.

Oil Markets fluctuated sharply during the year as WTI crude prices started the year at $44 then dropped to $33 in February but then increased again to $54 by year end. Global Financial Markets likewise fluctuated, caused by doubts and uncertainties of the future of international trade and international relations. However, despite these uncertainties, IPG's portfolio performance as at the end of the year was satisfactory when compared to other indices.

The Board of Directors have adopted policies, procedures and regulations during 2016 governing the application of rules of corporate governance. Introducing such policies during the year was in accordance with the Capital Markets Authority and best corporate governance practices including protection of shareholders and other stakeholders. Furthermore, to maximize the added value for shareholders and provide transparency in all of the Group's dealings under the law and instructions of regulators. The corporate governance report includes the achievements of the Board of Directors with regard to the application of corporate governance under the instruction of the CMA.

IPG's Equity Movement (KD Million)





SUMMARY OF THE COMPANIES RESULTS FOR 2016

MARKETING & TRADING ACTIVITY

Despite intense competition by international oil trading companies, namely in the African Markets, IPG managed to market about 3.9 million tons, equivalent to 82,000 barrels per day, an increase of about 5.3% compared to 2015. 2016 has also witnessed IPG's return to the Zambian markets. IPG continued its close cooperation with many National Oil Companies such as Aramco, The Bahrain Petroleum Company (BAPCO), Egyptian General Petroleum Corporation (EGPC) and Aden Refinery Company. Furthermore, IPG strengthened its ties with international oil companies such as Shell, Exxon Mobil, British Petroleum and refineries operating in the Mediterranean.

(a) TRADING ACTIVITY IN THE GULF & RED SEA

Sales to the Gulf and Red Sea regions represented the highest share of our markets, reaching 1.44 million tons which were mostly sold to Saudi Arabia, United Arab Emirates, Yemen and The Arab Republic of Egypt.

(b) TRADING ACTIVITY IN EAST AFRICA

IPG was able to market 960,000 tons of petroleum products in Zimbabwe, Mozambique and Zambia, representing an increase of about 550,000 tons over what was marketed in 2015. "Reconstituted Crude" sales to Zambia were the major part of these sales.

(c) TRADING ACTIVITY IN THE MEDITERRANEAN SEA & BLACK SEA

IPG's sales in this region increased to 1.23 million tons compared to 1.1 million tons marketed during 2015. Sales to Lebanon declined to 590,000 tons from 700,000 tons during 2015. This decline in sales was due to the loss of a major customer, combined with an increase in the Lebanese Government sales of Diesel. However, despite this decline in sales, IPG was able to maintain good performance in Uniterminals (50% owned by IPG) in 2016, generating higher profits than in 2015.

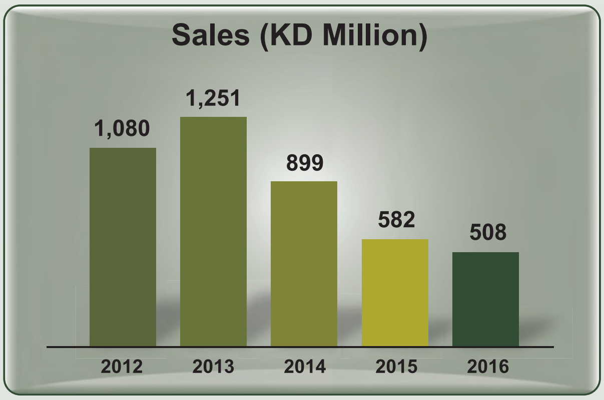
IPG also increased its sales to Morocco by 10%; 440,000 tons compared to 400,000 tons during 2015. IPG utilized HTTSA tanks in Tangier (32.5% owned by IPG) to provide supplies to its local customers.

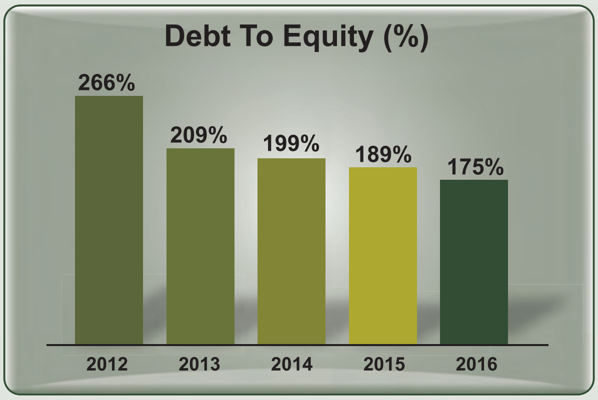
(d) TRADING ACTIVITY IN THE FAR EAST

IPG's sales of petroleum products to customers in Singapore, South Korea and Vietnam reached about 316,000 tons.

(e) SHIPPING

The two new tankers owned by IPG were leased the tanker "Abdurrazak Khaled Zaid Al-Khaled" to Shell and the tanker " Al-Betroleya" to Aramco for a period of one year at competitive rates. Charter rates have declined at the end of 2016 due to economic slow-down and freezing of oil production by OPEC. IPG's Shipping Department carried out a total of 133 shipments during the year, totaling approximately 4.24 million tons of both petroleum products and crude oil.





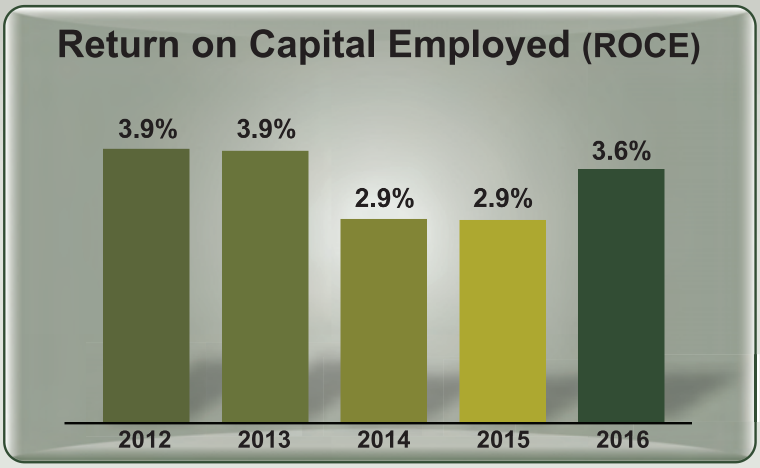
(f) STORAGE OF PETROLEUM PRODUCTS

The total petroleum products that were stored and then marketed by IPG during 2016 reached about 880,000 tons. Most of these storage operations were carried out utilizing storage terminals that are partly owned by IPG. These storage operations plus some sales into retail operations helped IPG maintain a good level of sales into Zimbabwe, Mozambique and Morocco. Apart from that, Arab Tank Terminals storage in Yanbu Saudi Arabia was partially leased to Aramco where it will be utilized for blending of Gasoline and retail sales to local markets.

BUSINESS & PROJECT DEVELOPMENT

The Business Development & Projects Department (BD) actively monitored the execution of wholly or partially owned projects.
In 2016, the Department was actively involved in the implementation of the Phase III Infrastructure Project (Debottlenecking) at ATTL facilities in Yanbu, Saudi Arabia which was financed by IPG at a total cost of USD 14 million. Upon completion of the project in June 2017, it will enable the terminal to receive 100,000 - ton Long Range tankers.
Expansion works are in progress at HTTSA in Tangier Morocco to add the 2nd Jetty and truck loading facilities at a total cost of 14.5 million Euros, which is expected to be completed by June of 2017.

Furthermore, the Department also monitored the project execution work of the two new terminal facilities at the Ports of Beira and Matola in Mozambique, in partnership with Galp Energia Group of Portugal. Adverse weather conditions and heavy rains, combined with slow pace of project execution by the contractor Steval (EPC), has affected the project's progress. Now it has been finally agreed with Steval to reschedule the projects execution. The new estimates are for the Beira project to be completed by 3rd Quarter of 2017, while Matola project is expected to be completed by 1st quarter of 2018.



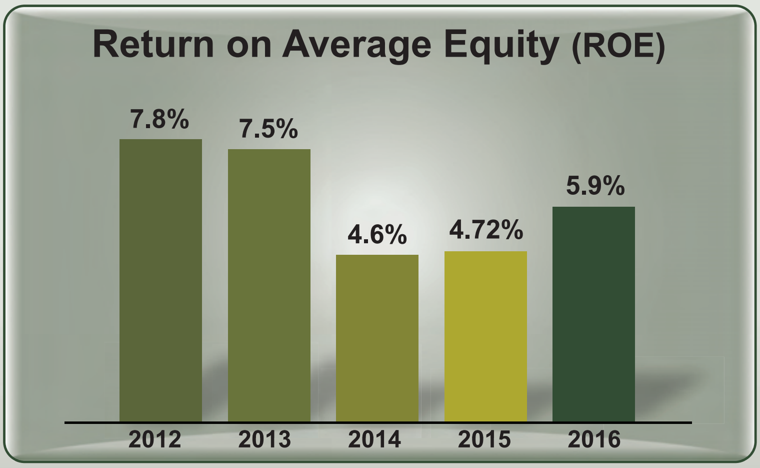
FINANCE & TREASURY

The Finance Department continues to ensure the Group's liquidity requirement for its trading activity and to participate in entering in International bidding contracts to supply the group's customers with competitively priced petroleum products. Furthermore, the Department resorted to Structured Financial Arrangements which supported IPG to enter into new markets.

IPG has continued to strengthen its relationship with international, regional and local banks, through visits and follow-through so as to obtain the best financing for its trading and project activities.

HUMAN RESOURCES

IPG's business performance and future success relies primarily on its employees. During 2016, ten (10) new employees were recruited, bringing the total staff to 122. IPG also maintained a good percentage of Kuwaiti employees, reaching 18% of the total workforce at the end of 2016.



INFORMATION TECHNOLOGY

Globally, 2016 was considered a very challenging year for Cyber Security which led IPG to focus more on fortifying the Security and safety Infrastructure. The Department started by successfully migrating the email exchange servers to the cloud – Microsoft Office365 which enhanced Security and saved cost. As a major security step, the Department migrated the Payments to be done through SWIFT, which is the most secured way used worldwide by banks and large financial organizations. As a final step towards strengthening IPG's Security, the Department decided to replace the whole Security Infrastructure with the best solution available globally and currently the Department is in the designing & Implementation phase.

LEGAL DEPARTMENT

The team spirit and the continuous coordination between the Legal Department and IPG's other Departments contributed in minimizing commercial risks, which is mostly quite difficult for other companies to achieve, due to the difficult business environment where IPG operates.

Since inception in 2007, the Legal Department has played a leading role in providing IPG's head office and all its worldwide branches with the highest level of legal opinions.

This was adopted based on the foregoing, and the Board of Directors has approved the financial statement for the financial year ended 31.12.2016 recommending the following:

1. Cash dividend of 30% approximately 30 fils per share amounting to KD 4,567,500 (Four million Five hundred Sixty Seven thousand Five hundred Kuwaiti Dinars) for the year ended 31/12/2016 towards registered shareholders on the date of the AGM.
2. Approving the remuneration towards the members of the Board of Directors for the financial year ended 31/12/2016 amounting to KD 80,000 (KD Eighty thousand only).
3. Approving the increase of the paid-up capital of the company from 15,225,000 KD, divided into 152,250,000 shares to 18,840,750 KD, divided into 188,407,500 shares, representing an increase of 3,615,750 KD, equivalent to 36,157,500 new shares, representing an increase of 23.749% to the existing paid-up capital of the Company. This will bring a nominal increase of 100 fils per share and a premium of 200 fils per share, less issuance expenses.

These recommendations are subject to the approval of the competent authorities, General and extraordinary assemblies.

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.

Khalaf Ahmad Al-Khalaf
Chairman

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 LLC is the shipping arm of IPG. The company owns and operates 4 petroleum product vessels which are fully utilized by IPG. 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 m³. It has a paid up capital of US $16.7 million. By Shareholding IPG's capacity is 37,000 m³.

Other Shareholder is:

- Unihold SAL – Lebanon

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

Inpetro owns and operates petroleum products storage terminal in Port Beira, Mozambique with a storage capacity of 95,000 m^3 constructed at a total capital cost of US $26 million. By Shareholding IPG's capacity is 38,000 m^3.

Other Shareholders are:

- PETROMOC – National Oil Company of the Republic of Mozambique
- NOIC - National Oil Infrastructure 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 m^3 of which 268,500 m^3 is for petroleum products and 19,200 m^3 for chemical products with a total capital cost of US $ 74 million along with a pipeline connection (three 16" lines) to Samref Refinery, Yanbu, KSA. ATT is going ahead with a project to improve the operational efficiency and flexibility of the terminal, with the ability to receive LR vessels in the new berth 20 in addition to the existing berth 21. EPC Contract was signed with Belleli in November 2015 at a cost of US$ 11.7 Million to execute the project. The project is under construction phase and expected to be commissioned by Q2 2017. By Shareholding IPG's capacity is 105,000 m^3.

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)

HTTSA owns and operates a storage and bunkering facility of 532,919 cbm for clean and dirty petroleum products at Port Tangiers, Morocco at a total capital cost of € 140.5 million. HTTSA is financing construction of Jetty no. 2 by TMSA at a cost of approx.

€ 12 million. Upon completion of the Jetty no. 2, HTTSA will have access to the Jetty no. 2 in addition to the existing exclusive Jetty No. 1 which will add flexibility on shipping facilities for the Clients of HTTSA. The Jetty no. 2 is expected to be operational by Q2 of 2017. By Shareholding IPG's capacity is **173,199 m³**.

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 371,000 m³ constructed at a capital cost of US $100 million. By Shareholding IPG's capacity is 74,200 m³.

Other Shareholders are:

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



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 m^3 and four jetties at a capital cost of US $299 million. By Shareholding IPG's capacity is 186,750 cbm.

Other Shareholders are:

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


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. By Shareholding IPG's capacity is 10.25 Km.

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 2.6 million m³ including marine facilities with 4 berths and one single point mooring (SPM), at a total capital cost of US $505 million. By Shareholding IPG's capacity is 290,000 m³.

Other Shareholders are:

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