

Report of the Board of Directors for 2017

Message to the Shareholders

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to the Shareholders the 41st Annual Report on the performance of the Independent Petroleum Group (IPG) for the year 2017.

The most important event for IPG during 2017 was the increase in issued and paid up capital from KD 15,225,000 to KD 18,840,750; an increase of KD 3,615,750 which is equivalent to the issuance of 36,157,500 new shares or 23.8%. With this last raise in capital, the number of issued shares increased to 188,407,500 from 152,250,000 shares. The issued share price was 300 fils (100 plus 200 fils premium).

There was a strong demand for this capital increase and it was successfully completed in July 2017. The shareholders equity at the end of 2017 reached KD 96.407 million (equivalent to 511 fils per share). In comparison to the end of 2016, the shareholder's equity was KD 85.724 million (equivalent to 563 fils per share).

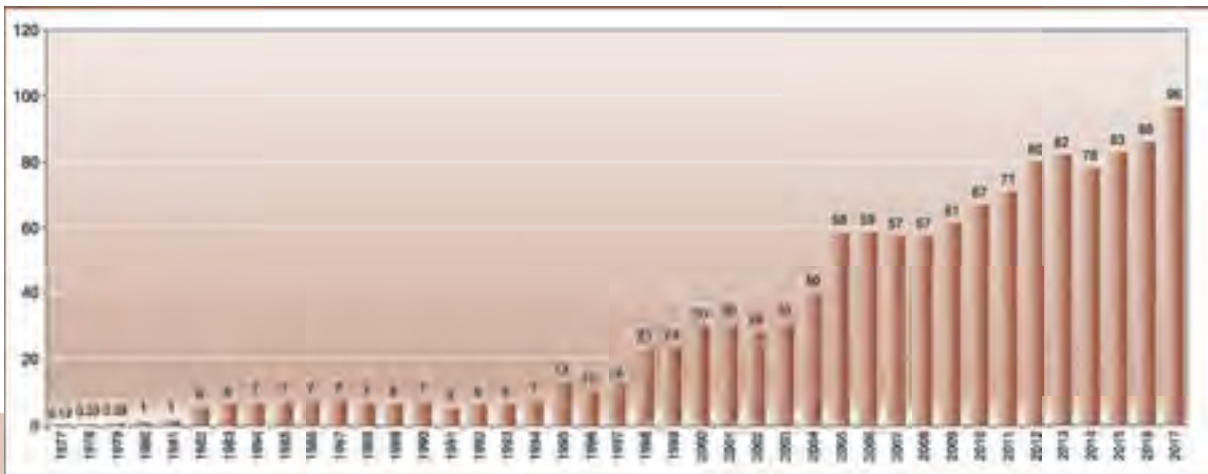
As far as other major events are concerned in 2017, the political situation in the World was unstable due firstly to the US threats to North Korea and Iran, plus the dire and unstable political situation in the Middle East due to the ongoing war in Yemen, Syria, Iraq and Libya.

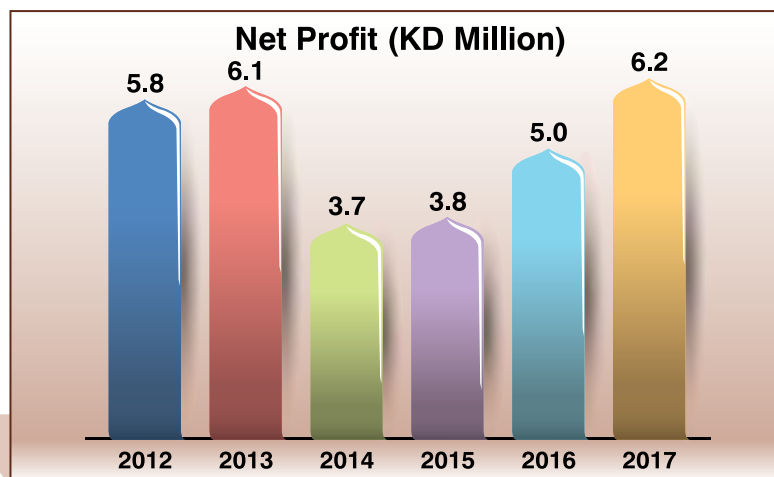
OPEC's latest agreement to reduce output by 1.8 million barrels per day, helped not only in maintaining oil prices at their previous levels, but also their subsequent increase with Brent crude reaching US\$ 66.87 per barrel; it's highest since June 2016.

There were strong competitions in the markets that IPG is active in, especially in Africa, caused mainly by Major International Oil Trading Companies. Despite that, IPG's performance during 2017 was quite satisfactory, achieving a net profit of 6.232 million KD, equivalent to 37.32 fils per share. The profit is about 24.4% over that of the year 2016.

The Board of Directors has continued to adopt policies, procedures and regulations governing the Corporate Governance. The attached Corporate Governance Report highlights the Board's achievements in 2017 in adopting all the regulations put forward by the Capital Markets Authority.

IPG's Equity Movement (KD Million)





SUMMARY OF THE COMPANY'S RESULTS FOR 2017

MARKETING AND COMMERCIAL ACTIVITIES

The major International Oil Trading Companies continued to trade very competitively in our markets, particularly in Africa. However, that did not impede IPG from successfully continuing with its trading activities, including opening new markets. The war in Yemen led to a decrease in IPG's exports to that country compared to 2016. The petroleum assistance program by the Kingdom of Saudi Arabia and the United Arab Emirates also caused a decrease in IPG's exports to Egypt. In the meantime, IPG continued its close cooperation with the National as well as Major Oil Companies.

(a) Trading Activities in The Gulf and Red Sea

Sales to the Gulf and the Red Sea region accounted for 32% of IPG's total sales- Yemen, Djibouti and Egypt were the major outlets.

(b) Trading Activities in East Africa

For the second consecutive year, IPG continued supplying Zambia with all its requirement of "Reconstituted Crude" to operate its oil refinery, meeting all contractual clauses successfully. As to Zimbabwe, the unavailability of foreign exchange and intense competition reduced our exports.

(c) Trading Activities in Mediterranean Sea

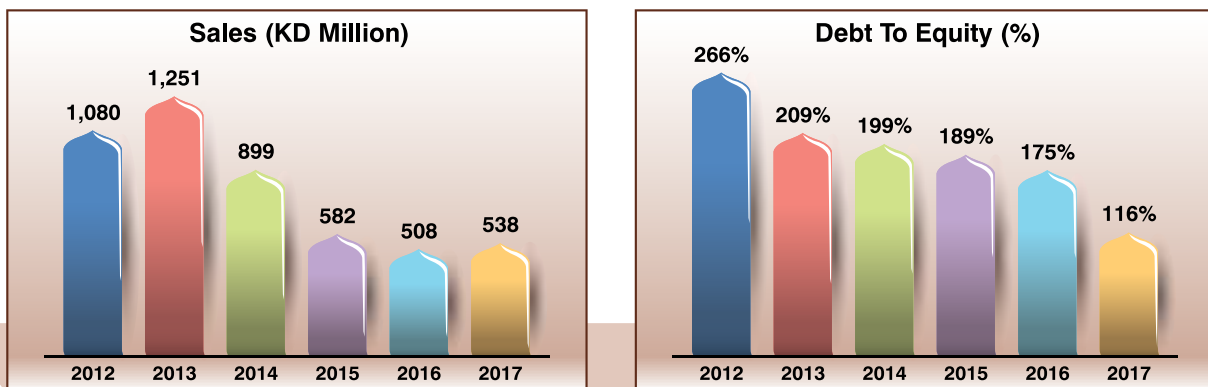
IPG's sales of refined petroleum products in the Mediterranean basin reached 1.1 million tons, evenly shared between Lebanon and Morocco. It should be noted that the entire sales by IPG to Lebanon were made through Uniterminals (50% owned by IPG). Despite a drop in IPG's total sales to Lebanon in 2017 compared to 2016, IPG was able to generate higher profits. Profits generated from sales to Morocco also increased over 2016, where IPG utilizes the tanks in HTTSA Terminal in the port of Tangiers. IPG owns 32.5% shares of this Terminal.

(d) Trading Activities in The Far East

IPG's sales of petroleum products to customers in Singapore reached about 301,000 tons, which is about equal to its sales in the region during 2016.

(e) Shipping

During 2017, ninety-eight (98) shipments were carried out by IPG's Shipping Department, deploying its four (4) owned oil tankers as well as chartered vessels. The total volume of cargos thus shipped reached about 3.7 million tons. IPG's fully owned oil tankers, namely Abdul Razzaq Al Khalid and Al Betroleya, continued to be chartered out to ARAMCO. The total volume of oil shipped by oil tankers chartered out to companies such as ARAMCO, KPC, BP, SHELL and others, reached 526,000 tons, whereas the grand total quantities of both product and crude oil shipped by IPG reached about 4.2 million tons.



(f) Storage of Petroleum Products

The total volume of products stored and utilized by IPG in its oil terminals, increased in 2017 to about 1.2 million tons. IPG leased some 168,000 cubic meters in Arabtank Terminal, Saudi Arabia to Aramco. IPG also continued to utilize the storage capacity it owns in the Terminals in Mozambique and Morocco, enabling it to successfully maintain its markets in these regions.

Risk Management Team

Risk Management Team (RMT) functions as a separate section within the Marketing Department, managing all the risks related to oil price volatility and securing the trading margin in accordance with IPG's policy.

The team also evaluates the economies of all the trades executed by traders and provides daily reporting to the Marketing Department and exclusive periodical and performance reports to management as well as provides assistance to IPG's Annual plans. RMT does also technical analysis about the oil price movements and advises the trading team about the views on the oil price movements and identifies physical arbitrage opportunities between different geographical location.

RMT members are experienced professionals with affluent knowledge in the oil and energy industry. In all its functions, RMT is operating within IPG's strict Hedging Policy.

Business and Project Development

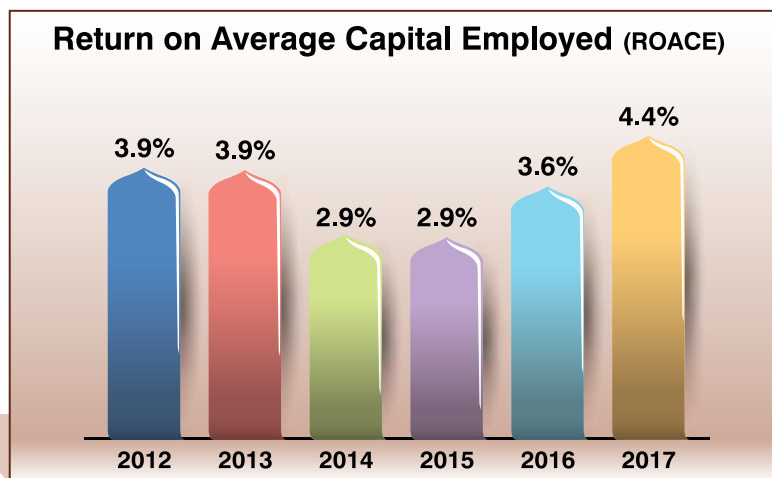
The Business Development and Projects Department continued to monitor projects currently being under execution, as well as to look for new investment opportunities consistent with IPG's strategic plans. During 2017, IPG followed up the implementation of Arab Tank Terminal Phase III expansion project in Yanbu, Saudi Arabia, which is partially owned by IPG (36.5%). This expansion costing about US\$ 14.0 million was totally financed by IPG. In addition to that a New Berth 20, commissioned during Nov 2017, enabled the berthing of Larger Vessels (100,000 mt. DWT). The 24" pipeline project is expected to be completed during the first quarter of 2018.

With regard to Tangiers, Morocco, construction of a new Berth No. 2 was completed during 2017 along with the Truck Loading Gantry for a total cost of Euro 14.5 m.

The Department also continued to follow up the progress of the joint projects with GALP, a Portuguese



Private Oil Company in both Beira and Matola, Mozambique. IPG agreed with GALP to terminate the previous contract with “Steval” due to delays in executing the two Projects. A Management Agreement was concluded with a specialized Portuguese Company in projects execution and it is anticipated to complete the Beira Project (65,000 cubic meters) during the first quarter of 2019 and Matola Project (66,000 cubic meters) during the fourth quarter of 2019. These two equally owned Projects with Galp will enable IPG to carry out market expansions in Zambia, Zimbabwe, Botswana, Congo, South Africa as well as other neighboring countries.



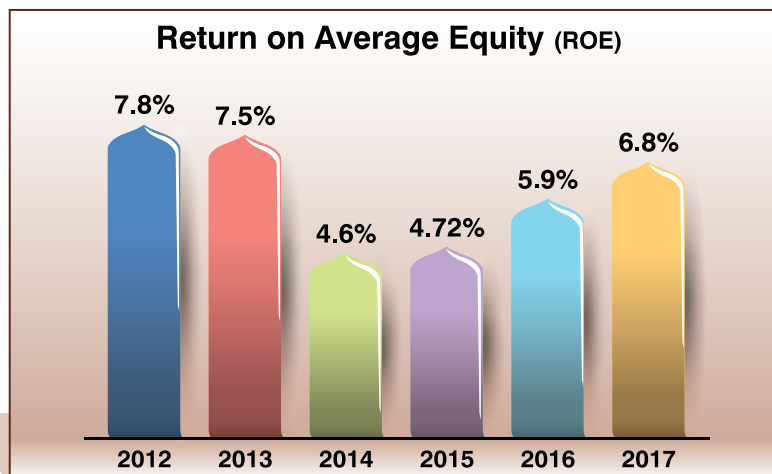
Finance & Treasury

The Finance Department continued providing the full support to meet the financial liquidity requirements of IPG’s local and international operations and to participate in entering in the international bidding contracts to supply the group’s customers with competitively priced petroleum products.

The department has continued to establish new relations with new banks locally and internationally to obtain additional funding required to meet current and future financial needs.

Human Resources

IPG has taken a strategic decision to be an effective competitor in bringing in the largest possible number of young Kuwaitis to train and rehabilitate them and thus achieve the group’s long term goals. During 2017, ten (10) new employees were recruited, bringing the total staff to 135. At the end of 2017, the percentage of Kuwaitis reached 18% of the total workforce.





Information Technology (IT)

Continuing with IPG's focus on Security, the IT Department finalized the implementation of the Security Infrastructure project as per Industry's Best Practice recommendations. The IT Department also launched a new, enhanced, dynamic and interactive web site for IPG that is compatible with all presently available devices. IPG's Financial Application was upgraded to the latest version along with a new feature of enhanced Management Reporting. Currently, IPG is in the design and implementation stage for upgrading the smart building infrastructure (CCTV cameras, Biometric access control, etc.) and Digital Video Conferencing system.

Legal Department

The year 2017 was no exception to the fundamental guidelines that has been adopted by the Legal Department since its inception, namely keeping the legal exposure of IPG as low as possible. The decrease of lawsuits and hence the support of external law firms has continued to drop in 2017. IPG's legal department has once again proved to be capable of granting full legal support to all IPG's Departments in all corporate and trading areas.

The Board of Directors approved the audited financial statements as of 31 December 2017 and decided to recommend the below:

- 1 - Cash dividend of 30 Fils per share in the total amount 5,652,225 (KD Five million Six hundred Fifty Two thousand Two hundred Twenty Five) for the year ended 31/12/17 to the registered shareholders on the date of the AGM.
- 2 - Approving the remuneration to the Board of Directors for the financial year ended 31/12/2017 amounting to KD 80,000 (KD Eighty thousand)

In conclusion, the Board of Directors expresses its thanks and appreciation to the shareholders for their great confidence and to all the employees of IPG for their sincerity and dedication.

Khalaf Ahmed 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 - Incorporated in 1999 and IPG acquired 100% in 2008)**

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.

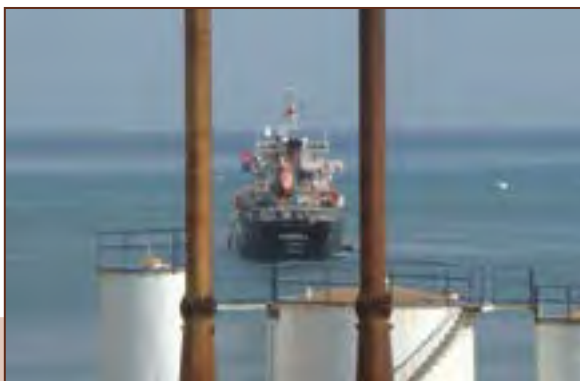


2. **Uniterminals – Lebanon: (IPG share 50% - Joint Venture Company - Acquired in 2002)**

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 - Incorporated in 2002 and Commissioned in 2006)

Inpetro owns and operates petroleum products storage terminal in Port Beira, Mozambique with a storage capacity of 95,000 m³ constructed at a total capital cost of US \$26 million. By Shareholding IPG's capacity is 38,000 m³.

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 – Acquired in 2000 and Commissioned in 2008)

ATT owns and operates a storage facility of 288,300 m³ of which 268,500 m³ is for petroleum products and 19,800 m³ 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. Phase III Infrastructure (Debottlenecking) project to improve the operational efficiency and flexibility of the terminal has been partially commissioned (full commissioning is expected by Q1 2018) which enabled the terminal to utilize berth 20 to receive LR vessels. ATT signed the development agreement with Farabi Petrochemicals Co. of KSA to rent 45K m³ for the storage of chemical products. ATT's scope of works of the conversion of the 4 petroleum tanks of chemical storage tanks is estimated at a cost of US\$ 25 Mn. As per the agreement, ATT's scope by end of 2019 is to hand over the 45K m³ capacity in 4 tanks along with other facilities. Additionally, Farabi will sign the 20-year storage agreement starting from 2020. By Shareholding IPG's capacity is 105,230 m³.

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 – Incorporated in 2006 and Commissioned in 2012)

HTTSA owns and operates a storage and bunkering facility of 533,000 cbm for clean and dirty petroleum products at Port Tangiers, Morocco at a total capital cost of €140.5 million. With the financing of HTTSA, TMSA completed the construction and commissioned Jetty 2 in mid-2017. With this expansion HTTSA will have access to the Jetty no. 2, in addition to the existing exclusive Jetty No. 1, which will add flexibility for shipping facilities for HTTSA clients. 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 - Incorporated in 2003 and Commissioned in 2006)

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 – Incorporated in 2004 and Commissioned in 2007)

HSTPL owns and operates an independent petroleum storage terminal with a storage capacity of 1.2 million m³ 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. Vopak Horizon Fujairah Limited (VHFL) – UAE: (IPG share 11.11% - Associate Company – Incorporated in 1997 and Commissioned in phases starting from 1999)

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





41 Years
1976 - 2017



9. **Total IPG's storage capacity by shareholding in all the above terminals is 904, 264 Cubic Meters**

10. **Asia Petroleum Limited (APL) – Pakistan: (IPG share 12.5% - Associate Company - Incorporated in 1994 and Commissioned in 1996)**

APL owns and operates a petroleum products pipeline (including a 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)

