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KUWAIT NATIONAL PETROLEUM COMPANY K.S.C.

ANNUAL REPORT 1966



CENTRE FOR ARAB GULF STUDIES
UNIVERSITY OF EXETER



HIS HIGHNESS SHAIKH SABAH AL-SALEM AL-SABAH

AMIR OF THE STATE OF KUWAIT

BOARD OF DIRECTORS

AHMAD SAYED OMAR

Chairman

Directors

YUSUF IBRAHIM AL-GHANIM

SA'DOON MOHAMED AL-JASSIM

YA'QUB YUSUF AL-HAMAD

JASSIM HAMAD AL-SAQR

ABDUL-RAHMAN AL-SULTAN

ASHRAF LUTFI

ABDUL-AZIZ FAHD AL-FULAIJ

IBRAHIM YALI AHMAD

AHMAD ABDUL-MUHCEN AL-MUTEIR

MESSAGE FROM THE CHAIRMAN

The object of Kuwait National Petroleum Company as laid down in its Articles of Association envisages a fully integrated oil company.

The sixth year in the short history of the Company provides the turning point in its oil operations. For 1966 ushered in the construction of our Shuaiba Refinery which, we hope, would go on stream in late 1967. The Company is establishing the needed down-stream facilities including sales offices and storage depots in different parts of the world which would facilitate the marketing of our petroleum products internationally. This, we are confident, would place KNPC on the international oil map of the world and would further boost the image of the State of Kuwait.

We are confident now that we have reached the take-off stage in our future expansion in the oil business. So far, KNPC has been preparing the ground work for its future operations by building a solid financial base and at the same time laying down the basis for its future integrated oil operations locally and internationally. The two facets of KNPC's work represent a true image of its primary object for which it was established.

1967 will also witness the final stages in the development of the Concession granted to KNPC by the Government in collaboration with a foreign partner. This would enable the Company to obtain its own sources of Kuwaiti crude oil.

The strong capabilities of KNPC which have been continuously built by the Management over the past six years, coupled by Government backing, will assure continued success for the Company in its future growth.

God is the Leader to success.

Chairman of the Board

**REPORT OF THE BOARD OF DIRECTORS OF THE KUWAIT NATIONAL
PETROLEUM COMPANY (K.S.C.) FOR THE YEAR ENDED
31st. DECEMBER, 1966**

To the Shareholders of the Kuwait National Petroleum Company (K.S.C.)

Gentlemen:

The Directors of Kuwait National Petroleum Company take pleasure in submitting this Report on the Company's operations for the year ended 31st. December, 1966. This was the sixth consecutive year of higher income and continued success for KNPC.

The following changes took place in the structure of the Board of Directors :

Sayed Abdul-Aziz Al-Dousary, Director on behalf of the Government, resigned and His Excellency the Acting Minister of Finance and Oil, appointed Sayed Ahmad Abdul-Muhsen Al-Muteir to replace him.

The Executive Committee was dissolved on 14 December, 1966, and Sayed Ahmad Sayed Omar was appointed full-time Chairman and Managing Director on 22 August, 1966.

On 1 July, 1966, KNPC's holding in the Kuwait Aviation Fuelling Company (K.S.C.), KAFCO, was increased from 51 per cent to 80 per cent, while that of British Petroleum Company was decreased from 49 per cent to 20 per cent.

Negotiations between KNPC and Cia. Hispanica de Petroleos, S.A. (Hispanoil) concerning the Concession were resumed last October and the Drafts of the Concession and Operating Agreements are now in the final stage of preparation.

CAPITAL AND SHAREHOLDERS

The following Table shows the situation of Share Capital (K.D. 7,500,000), number of Shareholders for the period 1961 to 1966 and payment of calls-on-shares:

Year	Capital K.D.	Percentage of Called Capital	Paid Capital K.D.	Unpaid Capital K.D.	Number of Shareholders At Year- End
1961	7,500,000	25	1,873,631	1,369	3,585
1962	7,500,000	50	3,613,069	136,931	3,145
1963	7,500,000	50	3,748,961	1,039	2,903
1964	7,500,000	100	7,337,074	162,926	2,736
1965	7,500,000	100	7,481,736	18,264	2,664
1966	7,500,000	100	7,499,927	73	2,616

EXPLORATION

The Exploration Department, in 1966, continued its activities by conducting geological studies and gathering data in preparation for future exploration operations. The results of the seismic surveys previously conducted by Kuwait Oil Company over the Relinquished Areas, were obtained and samples of the seismic records were tested in the laboratories of a specialized company in the U.S.A.

ECONOMICS

Studies and reports were made by the Economics Department on matters relating to Company activities. Particular attention was given to evaluating downstream projects and possible overseas markets. The Department continued its efforts to gather data on developments in the petroleum industry on a global scale.

Numerous informative articles were written about KNPC and were published in oil journals in different parts of the world.

The Library continued its steady progress and has been reorganized in a manner which would facilitate easy use by the Staff of the Company. By the end of the year, the Library accumulated more than 2,200 books and documents relating to oil, business, economics, refining, accounting, and engineering.

REFINING

SHUAIBA REFINERY

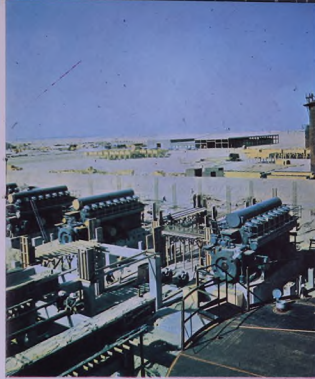
On March 5th, 1966, His Highness the Amir Shaikh Sabah Al-Salem Al-Sabah, before a gathering of notables and citizens, turned the first spadeful of earth at the site of the Shuaiba Refinery Project that may well prove to be one of the most significant projects in the history of the State of Kuwait.



HIS HIGHNESS THE AMIR DURING GROUND BREAKING CEREMONY



H-OIL UNIT (TWO REACTORS)

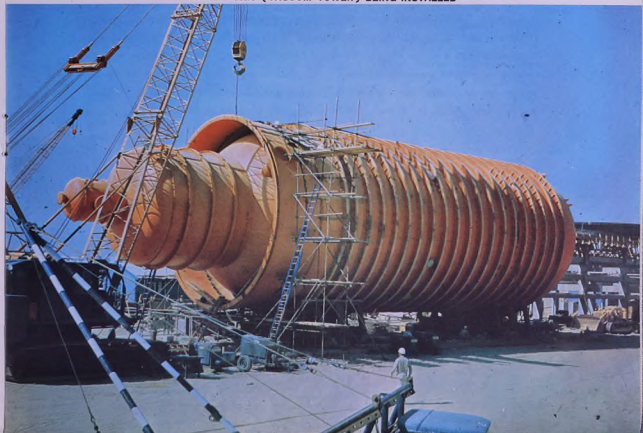


THE WORLD'S LARGEST HYDROGEN PRODUCT COMPRESSORS, EACH 5500 BHP



GENERAL VIEW OF THE WORLD'S FIRST ALL-HYDROGEN REFINERY

CRUDE UNIT (VACUUM TOWER) BEING INSTALLED



Fluor commenced work on the KNPC Shuaiba Refinery in early 1966. The first phase of the work covered the Civil Engineering aspects, fencing the area, site preparation, layout of the roads, excavations and pouring concrete for foundations. Considerable amounts of underground piping and electrical cables have been installed and this work is progressing at a constantly accelerating rate. Work has progressed now into the above ground erection such as pipe supports and piping installation, vessel erection, installation of fin-fan cooling units, heat exchangers and electric desalters and construction of transformer sub-stations.

The major erection land marks are the two 600-ton each H-Oil reactors, the 275-ton vacuum column and the 160-ton atmospheric column.

The warehouse, shop structure, sub-office buildings, main transformer station, the causeway and the reactor roadway, perimeter fencing and the 52 tanks in the tank farm are 100 per cent complete. The marine oil lines to the oil pier are being installed. Work on the 900,000 pound per hour steam boiler plant has started.

Four of the 5,500 horsepower Cooper-Bessemer hydrogen compressor engines are on foundations. The arrival of the fifth compressor engine will make the above compressor station the largest Hydrogen Compression Plant in the world.

By the end of 1966, approximately 80 per cent of engineering and design works and 15 per cent of construction work were complete. The reason behind the low percentage in construction work is due to delays in delivery of Refinery equipment and materials on which construction progress is entirely dependent. However, the recent flow of materials has sped up the pace of construction which is now progressing satisfactorily as scheduled. Barring any unforeseen delays, the Refinery will be mechanically complete by October, 1967.

UMTALI REFINERY

The Umtali Refinery at Feruka Valley, Southern Rhodesia, has been inoperative since February, 1966. This is due to the interruption of crude supplies by all participants in the Refinery, including KNPC, in compliance with the decision of the Security Council of the United Nations and interested governments, to place an embargo on all oil shipment to Southern Rhodesia.

EMPLOYEE RELATIONS

The Scholarships and Training activities for 1966 comprise the following:

TRAINING

38 daily-paid Kuwaiti Trainees joined the training program during 1966. Another 23 Kuwaiti employees were trained and assigned work in the Company following the addition of a new course aiming at preparing trainees for work in the Refinery.

Two groups of employees were sent to Lebanon for IBM training and to the United States for training in refinery operations.

SCHOLARSHIPS

15 Kuwaitis are currently sponsored by the Company in High Vocational Training Institutes and Universities in the United Arab Republic.

OTHER SERVICES

Special classes in Arabic, English, Book-keeping and Typing were organized for Company employees.

KUWAITI STUDENTS
RECEIVING TRAINING
AT K.N.P.C.



MANPOWER

Growth in Company Manpower is given in the following table:

Nationality	1961		1962		1963		1964		1965		1966	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Kuwaitis	6	2.52	14	3.35	15	3.19	27	5.34	47	8.23	84	12.92
Other Arabs	216	90.76	378	90.43	429	91.28	452	89.33	485	84.94	513	78.92
Indians, Pakistanis and Iranians	14	5.88	22	5.26	20	4.25	20	3.95	23	4.03	25	3.85
Europeans and North Americans	2	0.84	4	0.96	6	1.28	7	1.38	16	2.80	28	4.31
TOTAL	238		418		470		506		571		650	

MARKETING

LOCAL SALES OF PETROLEUM PRODUCTS

The total volume of sales of main petroleum products amounted to 101,818,423 Imperial Gallons, representing an increase of 17.22 per cent over the corresponding figure for 1965. The drastic drop in the sale of Regular Gasoline is due to the fact that sale of this product has been discontinued effective May 1, 1966 owing to decrease in demand. The following Table shows the quantities of products sold in 1965 and 1966 together with percentage change of sales in 1966 over 1965:

Product	1966 Quantity Sold	1965 Quantity Sold	% Change 66/65
Premium Gasoline	67,273,652 I.G.	55,681,805 I.G.	+20.82
Regular Gasoline	903,321 I.G.	3,227,912 I.G.	-72.02
Total Gasoline	68,176,973 I.G.	58,909,717 I.G.	+15.73
Kerosine	11,236,796 I.G.	11,564,693 I.G.	-2.83
Gas Oil	22,403,998 I.G.	16,382,148 I.G.	+36.76
Outboard Motor Fuel	5,658 I.G.	6,840 I.G.	-17.31
Lubricating Oils	182,632 I.G.	169,005 I.G.	+8.06
Bitumen	26,312 L.T.	13,523 L.T.	+94.57
Residual Fuel	1,793 L.T.	3,271 L.T.	-45.18

L.T. — Long Ton I.G. — Imperial Gallon

NEW PROJECTS FOR LOCAL MARKETING

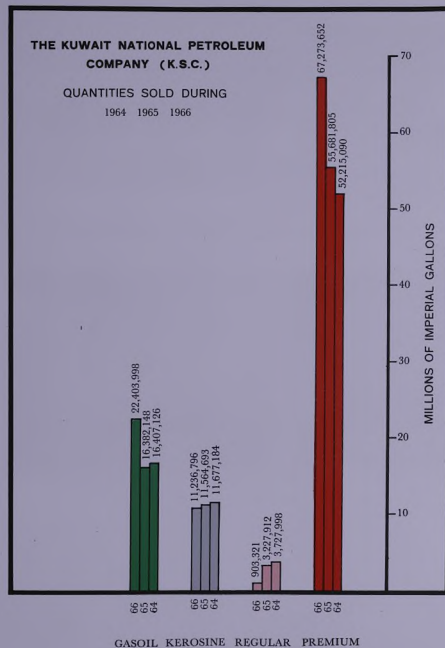
A new Filling Station was constructed in the Neutral Zone and was commissioned on August 9, 1966. Additional outlets for Gas Oil were installed in the Kuwait Port Area.

Work commenced during 1966 on the following projects: Super Station at al-Mansouriya, Filling Station at Failaka Island, Maintenance Workshops, Stores and Offices in the Shuwaikh Industrial Area. It is expected that these projects will be completed in 1967.

Basic designs for five filling stations were prepared by the end of 1966. Construction of these stations will commence in early 1967.

AVIATION FUELLING

KNPC supplied its subsidiary Kuwait Aviation Fuelling Company (KSC) with 4,071,947 Imperial Gallons of Aviation Turbine Kerosine. This represents an increase of 64.61 per cent over the corresponding figure of the preceding year.



FINANCIAL

PROFIT AND LOSS ACCOUNT

The Financial Statements are shown on pages 21 through 23. The net profit for 1966 was K.D. 4,143,924 representing an increase of K.D. 505,541 over 1965.

The net profit referred to includes an interim and proposed final dividends of K.D. 166,450 from Kuwait Aviation Fuelling Company (KAFCO) against an amount of K.D. 61,102 for the previous year.

The increase in profit for the year under review is derived from the effect of a reduction in the cost of petroleum products purchased by the Company and from increases in the sales of petroleum products and Kuwaitoil.

Hereunder is a Table giving details of the increase in net profit for the years 1961 to 1966 :

	1961 (7 Months) K.D.	1962 K.D.	1963 K.D.	1964 K.D.	1965 K.D.	1966 K.D.
Marketing Operations	789,180	1,386,894	2,067,210	2,382,895	2,562,749	3,135,532
Crude Sales	—	—	—	—	12,131	—
Interest Received & Receivable	42,378	158,754	224,888	437,205	997,310	837,089
Dividend Receivable from a Subsidiary	—	—	24,531	35,547	61,102	166,450
Sundries	—	—	999	3,238	5,091	4,853
TOTAL	831,558	1,745,648	2,317,628	2,858,885	3,638,383	4,143,924

Under "Current Assets" in the Balance Sheet an amount of K.D. 661,246 is shown, and is composed of the following :

- (a) Current account with banks K.D. 565,127
- (b) Cash at stations K.D. 28,601
- (c) Cash and cheques on hand K.D. 63,781
- (d) Imprest cash with Company employees K.D. 3,737

TOTAL K.D. 661,246

DISTRIBUTION OF PROFITS

In accordance with the objectives of the Company, the Board of Directors believe that the financing of the Company's investments require great amounts of money, and therefore, we should continue to build up as much reserves as possible.

Accordingly, we recommend that the 1966 net profit be appropriated as follows :

Statutory Reserve	K.D. 414,392
General Reserve	K.D. 2,711,532
Dividend for distribution to Shareholders at the rate of K.D. 1 per share to be paid on 1/4/1967	K.D. 1,000,000

It is suggested that the sum of K.D. 18,000 be paid to Members of the Board in respect of the remuneration due to them in accordance with Article " 150 " of the Law of Commercial Companies, and Article " 22 " of the Company's Articles of Association, and that an additional payment of K.D. 11,340 be made to the members of the Executive Committee.

The agreement covering the loan of K.D. 25 Million to the Company by the Government of Kuwait was signed on the 28th June, 1966 and appreciation is expressed to the State for this assistance.

During the year 1966, the Company entered into negotiations for a loan of U.S. Dollars 50 Million from the Export-Import Bank towards financing the Refinery Project. It is anticipated that these negotiations will be finalised during the early months of 1967.

In conclusion, we trust that the Shareholders, share with the Board of Directors, their appreciation of the efforts exerted by all employees and workers of the Company during the year in order to bring success to its activities and to achieve its continued expansion.

ACKNOWLEDGEMENT

We wish to express our deep thanks to H. H. Shaikh Sabah Al-Salem Al-Sabah, Amir of the State of Kuwait, for his kind attention and encouragement. We would like to record also our appreciation to H. H. The Heir Apparent and Prime Minister for his ever-lasting support to the national economy and to H. E. the Acting Minister of Finance and Oil for his kind attention and support. Our thanks are also due to the various State Ministries and the Shuaiba Industrial Board for their valuable assistance in furthering the interests of the Company on every occasion.

Board of Directors

KUWAIT NATIONAL PETROLEUM COMPANY (K.S.C.)

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST. DECEMBER, 1966

1965			1966	
K.D.	K.D.		K.D.	K.D.
4,935,683		TOTAL SALES		5,811,564
		Less :		
	1,915,041	Cost of Sales & Marketing Expenses	2,136,202	
	244,625	Administrative Expenses	322,637	
2,196,910	37,244	Research & Development Expenses	38,297	2,497,136
2,738,775				3,314,428
		Add :		
	797,046	Interest Received	527,831	
	200,264	Interest Receivable	309,258	
		Kuwait Aviation Fuelling Co. (K.S.C). Dividend Including Final Estimated Dividend of K.D. 108,096.	166,450	
1,063,503	61,102	Sundry Income	4,853	1,008,392
	5,091			
3,802,278				4,322,820
		Less :		
	73,724	Depreciation of Fixed Assets	86,575	
	9,082	Executive Committee's Remuneration and Managing Director	11,340	
	2,500	Auditor's Fees	3,000	
	—	Provision for Doubtful Debts	2,000	
163,895	78,589	Provision for Leave Pay and Terminal Benefits	75,981	178,896
3,638,383		NET PROFIT		4,143,924
		APPROPRIATIONS AND DIRECTORS' FEES		
	363,838	Statutory Reserve	414,392	
	2,256,545	General Reserve	2,711,532	
	1,900,000	Proposed Dividend of 13—1/3% on Nominal Capital	1,000,000	
3,638,383	18,000	Directors Fees	18,000	4,143,924

KUWAIT NATIONAL PETROLEUM COMPANY (K.S.C.)
BALANCE SHEET
AS AT 31ST DECEMBER, 1966

1965	
K.D.	K.D.
7,500,000	
7,481,736	7,500,000 18,264
25,708	
8,163,322	1,199,211 7,024,111
15,670,766	
—	
287,210	190,418 96,792
131,474	
1,189	
1,060,593	50,825 1,000,000 9,768
17,151,232	

NOTES :

- There are commitments outstanding on contract in connection with the construction of the Shuaiba Refinery amounting to an estimated K.D. 17,500,000 (1965: K.D. 37,000,000), not provided for in this account.
- There exists a contingent liability in respect of a claim for K.D. 65,000 which is being disputed by the Company.
- Included in Accrued Interest Receivable is an amount of K.D. 26,516 being interest in 31st December, 1966 on the loan to Central African Refineries (Private) Ltd., whose operations were suspended temporarily from January, 1966.
- Up to 31st December, the Company had received K.D. 23,678,371 from the loan of K.D. 25,000,000 granted by the State.

1966	
K.D.	K.D.
7,500,000	
7,500,000	7,499,927
1,553,603	
9,735,643	11,289,246
	18,814,881
	23,678,571
126,687	
682,551	809,238
	210,159
101,202	
1,000,000	
7,095	1,108,297
	44,621,146

1965	
K.D.	K.D.
454,715	
207,195	
58,909	
909	
7,192	
932,211	
1,661,131	
	18,295
	33,599
55,487	3,593
	400,000
	100,000
826,525	326,525
	60,691
	23,118
	12,700,000
	329,034
	9,000
13,642,087	61,102
	200,264
	31,673
	245,205
	—
	10,624
	955,378
966,002	—
17,151,232	

FIXED ASSETS

	1965	1966	1967
Head Office Land and Buildings	465,643	16,399	449,244
Filling Stations, Depots & Ancillary Equipment	585,096	293,541	291,555
Furniture, Fixtures & Fittings	123,009	71,389	51,620
Maintenance and General Equipment	11,559	5,535	6,654
Motor Vehicles	36,423	25,836	10,587
Refinery under Construction	20,367,415	—	20,367,415
	21,589,175	412,700	21,176,475

INVESTMENTS IN SUBSIDIARY COMPANIES

	1965	1966	1967
Shares at Cost, fully paid		68,730	
Loan		136,365	
Current Accounts		33,943	239,038

OTHER INVESTMENTS—AT COST

	1965	1966	1967
100,000 Shares of K.D. 8 each (50% paid) in Petrochemical Industries Co. (K.S.C.)		400,000	
Central African Petroleum Refineries (Private) Ltd. 100,000 Shares of R. £1 each fully paid (R. £1 has been converted at K.D. 1)		100,000	
Loan		326,525	826,525

CURRENT ASSETS

	1965	1966	1967
Stock of Petroleum Products in hand and in transit — at cost.		68,682	
Maintenance Stores in hand and in transit—at cost or realisable value		38,954	
Deposits with banks and others		16,142,857	
Accounts Receivable from Customers.	275,464		
Less : Provision for Doubtful Receivables.	11,000	264,464	
Estimated Dividend Receivable from Subsidiary Company.		108,096	
Accrued Interest Receivable		336,123	
Other Accounts Receivable		64,558	
Cash and Bank Balances.		661,246	17,684,980
FIGITIOUS ASSETS & OTHER DEBIT BALANCES			
Prepayments — Refinery Contractors		2,745,906	
Prepayments & Other Deposits		31,186	
Deferred Refinery Expenditure		1,895,193	
Other Deferred Expenditure		21,943	4,694,128
			44,621,146

 YA'QUB Y. AL-HAMAD,
Deputy Chairman

 AHMAD SAYED OMAR
Chairman & Managing Director

**REPORT OF THE AUDITOR TO THE MEMBERS OF
THE KUWAIT NATIONAL PETROLEUM
COMPANY (K.S.C.)**

I have examined the balance sheet of the Kuwait National Petroleum Company as at 31st December, 1966 and the profit and loss account for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other accounting procedures as I considered necessary in the circumstances. I have obtained all the information which I considered necessary for the satisfactory performance of my duties.

In my opinion the accompanying balance sheet and profit and loss account agree with the books of the Company and :—

- (i) Contain all that is required by the Law and the Articles of the Company
- (ii) Give a true and clear view of the financial standing of the Company.

In my opinion :—

- (i) The Company has kept proper books of account.
- (ii) Stock-taking has been duly carried out.
- (iii) The information contained in the Directors' report regarding the accounts is in agreement with the books of the Company.
- (iv) So far as such information was available no violations of the Law or Articles of Association which had an adverse effect on the business of the Company or its financial position, have occurred during the period.

H. G. ISAAC, F.C.A.
REGISTER OF AUDITORS No. 42 KUWAIT
OF WHINNEY MURRAY & COMPANY CHARTERED ACCOUNTANTS

