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23 MAY 1969



KUWAIT NATIONAL PETROLEUM CO. K.S.C.

Annual



Report

1968

CENTRE FOR ARAB GULF STUDIES
UNIVERSITY OF EXETER



*His Highness Shaikh Sabah Al Salim Al Sabah,
Amir of Kuwait*

KUWAIT NATIONAL PETROLEUM CO. K.S.C.

P.O. Box 70 — Kuwait, Arabian Gulf

Cable Address : "KUNPETCO — KUWAIT"

Telex 006

BOARD OF DIRECTORS

Ahmad Sayed Omar

Chairman & Managing Director

Sulaiman Al-Fouzan

Deputy Chairman

Abdul-Rahman Sultan

Deputy Managing Director

Ashraf Lutfi

Sa'doun Al-Jassim

Ahmad Al-Mutair

Ibrahim Yali Ahmad

Fahad Al-Dabbous

Sulaiman Al-Ghunaim

Abdulla Issa Al-Saleh

MESSAGE FROM THE CHAIRMAN

The going on stream of our Shuaiba Refinery in 1968 can be considered a land-mark in the further expansion of the Kuwait National Petroleum Company in the international oil business. In a sense, this event signals Kuwait's arrival into the modern, complex and competitive industrial era.

As expected, the start-up of a complex refinery, such as ours at Shuaiba, was associated with mechanical problems. These mechanical problems were handled by our staff and with the assistance of the contractors. It should be pointed out that these problems caused delays in the operation of certain major refinery units with the consequent result of an impact on revenues from our international operations. These major units will go on stream in the course of 1969.

The first shipment of products from our Shuaiba Refinery to overseas customers was moved on 6th May, 1968. Our customers in different parts of the world are receiving products in a satisfactory manner.

I am delighted to report that 1968 witnessed solid progress towards ensuring ready sources of crude for KNPC operations. This has come about through the granting of a Concession to KNPC (K.S.C.) and Hispanica de Petroleos, S.A. (Hispanoil) by the Government of Kuwait to explore and exploit oil within the State.

It is also gratifying that our sales of main petroleum products within the State of Kuwait registered another banner year.

Your Management is endeavoring consistently to promote the capabilities of our Company in a manner which would facilitate the further expansion of KNPC in the oil business. These efforts are strengthened by the continued support of the Government.



Ahmad Sayed Omar
Chairman of the Board of Directors.

**REPORT OF THE BOARD OF DIRECTORS OF THE
KUWAIT NATIONAL PETROLEUM CO. (K.S.C.)
FOR THE YEAR ENDED 31ST DECEMBER 1968**

To : The Shareholders of KNPC.

Gentlemen,

We are pleased to submit a review of the operations of the Kuwait National Petroleum Company for 1968 together with the related financial statements.

At the Ordinary General Assembly held on 5th May, 1968, the following gentlemen were announced to have been appointed by H.E. the Minister of Finance & Oil as Board members representing the Government, in compliance with Article 13 of KNPC's Articles of Association : -

1. Ahmad Sayed Omar
2. Abdul-Rahman Sultan
3. Sa'doun Al-Jassim
4. Ashraf Lutfi
5. Ahmad Al-Mutair
6. Ibrahim Yali Ahmad

At the same meeting the following gentlemen were elected by shareholders as Board members representing the private sector for a three-year term of office : -

1. Fahad Al-Dabbous
2. Sulaiman Al-Ghunaim
3. Sulaiman Al-Fouzan
4. Abdulla Isa Al-Saleh

Following the General Assembly, the new Board of Directors

re-elected Mr. Ahmad Sayed Omar as Chairman and Managing Director. Mr. Sulaiman Al-Fouzan and Mr. Abdul-Rahman Sultan were elected as Deputy Chairman and Deputy Managing Director, respectively.

The Kuwait National Petroleum Company (K.S.C.) and Hispanica de Petroleos, S.A. (HISPANOIL) were granted by the Government of Kuwait a Concession for exploring and exploiting petroleum within the State. The Concession, announced on 6th May, 1968, (Law No. 21, 1968) covers an area of about 9100 sq. kms., relinquished by K.O.C. in 1962. KNPC holds 51% and HISPANOIL 49% interest in the joint venture.

On 16th June, 1968, an Operating Company, Kuwait Spanish Petroleum Company (KSPC) was incorporated. The Board of Directors of this Company is composed of the following gentlemen : -

Abdul-Rahman Sultan	Chairman
Luis de Reyna	Managing Director
Fahad Nayif Al-Dabbous	Deputy Managing Director
Ahmad Abdul-Mohsin Al-Mutair	Director
Abdulla Al-Isa Al-Saleh	"
Juan Jose Bernat	"
Enrique Dupuy	"
Alejandro Garcia Fernandez	"

Two meetings of the Board of Directors were held in 1968. The first meeting took place in Kuwait on July 20-21, 1968. The second meeting was held in Madrid on October 24-28, 1968.

Work on Company organization and staffing proceeded during the last half of 1968. An Office was opened in the Chamber of Commerce and Industry Building in Kuwait.

Tenders were put out for geophysical surveys in K.S.P.C. Concession. The land seismic survey was awarded to the French Compagnie Generale de Geophysique. The survey is scheduled to start in early 1969.

Initial drilling work is expected to be started in late 1969.

Your Company's growth and progress are the result of the contribution, loyalty and effort of KNPC employees and the interest and support of its shareholders and customers, which we greatly appreciate.

We hope that the following pages will reveal clearly the progress KNPC accomplished in 1968 and the trail of expansion it is pursuing.

CAPITAL AND SHAREHOLDERS

The following Table shows the situation of Share Capital (K.D. 15,000,000), number of Shareholders for the period 1961 to 1968 and payment of calls-on-shares :

Year	Capital K.D.	Percentage of Called Capital	Paid Capital K.D.	Unpaid Capital K.D.	Number of Share- holders 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
1967	15,000,000	100	15,000,000	—	4,913
1968	15,000,000	100	15,000,000	—	4,773

PLANNING

ECONOMICS

Economics performed its regular activities by giving advice, preparing reports and studies on matters affecting the operations of the Company. In some of these activities, Economics cooperated with other Departments in order to achieve the best aims of the Company.

The Research Library increased documents and books of interest to the Company activities.

EXPLORATION

Exploration, in 1968, gathered geological data and continued routine studies and mapping throughout the year.

PERSONNEL

TRAINING AND

SCHOLARSHIPS

Thrift and Retirement Plan for Kuwaiti employees and Thrift Plan for non-Kuwaitis (other than western expatriates) are being developed.

Training activities in 1968 were strengthened and expanded to cope with the increasing needs of the Company. A new Training Centre is under construction and it is anticipated that full scale training will be operational in 1969.

The number of Kuwaiti students sponsored by the Company for the academic year 1968-69 totalled 32.

MANPOWER.

The following Table shows the rate of growth in manpower :

MANPOWER 1.6.1961 to 31.12.1968

		NATIONALITY				TOTAL
		Kuwaitis	Other Arabs	Westerners	Others	
1961	No.	6	216	2	14	238
	%	2.52	90.76	0.84	5.88	
1962	No.	14	378	4	22	418
	%	3.35	90.43	0.96	5.26	
1963	No.	15	429	6	20	470
	%	3.19	91.28	1.28	4.25	
1964	No.	27	452	7	20	506
	%	5.34	89.33	1.38	3.95	
1965	No.	47	485	16	23	571
	%	8.23	84.94	2.80	4.03	
1966	No.	84	513	28	25	650
	%	12.92	78.92	4.31	3.85	
1967	No.	116	793	89	51	1049
	%	11.06	75.60	8.48	4.86	
1968	No.	142	1223	134	164	1663
	%	8.54	73.54	8.06	9.86	



Preparatory Course for Filling - Station Attendants



Kuwaiti Trainee Refinery Operators

KNPC - Sponsored, Kuwaiti Would - Be Engineers Departing to study in Arab Universities



LOCAL MARKETING

LOCAL SALE

OF PETROLEUM

PRODUCTS

The total value of sales of main products amounted to 122,147,792 Imperial Gallons, representing an increase of 3,973,442 Imperial Gallons or 3.36%, over sales for the previous year.

The following tabulation presents a comparative analysis of sales of all products marketed locally, together with percentage change in volume of sales in 1968 over 1967.

	1968	1967	% Change 1968/1967
Gasoline	85,915,060 I.G.	79,232,544 I.G.	+ 8.43
Kerosine	10,807,035 I.G.	11,614,728 I.G.	- 6.09
Gas Oil	25,323,697 I.G.	27,327,078 I.G.	- 7.32
Outboard Motor Fuel	4,354 I.G.	5,323 I.G.	-17.54
Lube Oils	262,550 I.G.	235,615 I.G.	+11.43
Bitumen	30,163 Tons	35,809 Tons	-15.77
Residual Oil	1,267 Tons	3,323 Tons	-16.87

NEW PROJECTS

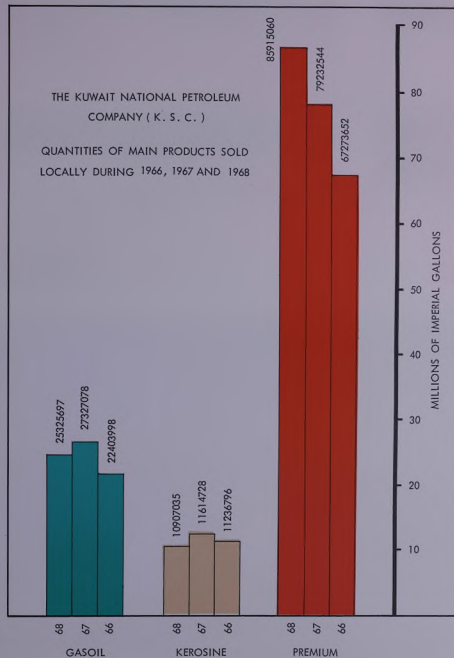
COMMISSIONED

The Failaka Island filling station was commissioned on 6.1.1968, and the total annual throughput amounted to 270,783 Imperial Gallons, representing a daily average sale of 750 Imperial Gallons.

Shuwaikh Industrial Area complex was completed in April 1968, and Technical Services Workshops, Materials and Lubricants groups are now accommodated in spacious environment with appropriate technical facilities.

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

QUANTITIES OF MAIN PRODUCTS SOLD LOCALLY DURING 1966, 1967 AND 1968



CONSTRUCTION

IN PROGRESS

FUTURE

CONSTRUCTION

Two conventional type filling stations at Salmiyah and Adailiyah were under construction together with three of a smaller type at the Neighbourhood Centre at Fayha, Qadisiyah and Da'yiah. It is expected that these five installations will be commissioned by the end of the first quarter of 1969.

The Company plans to build five more stations during 1969, similar in type to those mentioned above, and at locations where they will be most useful to both the private motorists and the owners and operators of a heavier type of transport.

Panoramic View of Shuaiba Refinery

KAFCO

The Kuwait Aviation Fuelling Company (K.S.C.), in which we hold 80% of the shares, continues to make good progress. Total sales of all products in 1968 amounted to 17,389,340 Imperial Gallons, showing an increase of 22.5% over the sales for the previous year.

The cost of obtaining supplies of products was much higher than in previous years but, in spite of this, the net profit rose by 18.6%.



REFINING

SHUAIBA

REFINERY

During 1968, construction of the KNPC Shuaiba Refinery was complete and most of the Refinery process units were placed on stream.

During the year, as construction of the individual process units was complete and the mechanical work accepted by KNPC, the units were checked out fully by KNPC staff and were put into operation. The last unit completed was the Isomax. Refinery construction was then complete and the final startup phases were entered.

Crude oil was charged to the Crude Unit in the middle of April. This occasion was marked by a ceremony attended by His Excellency the Minister of Finance and Oil.

All product shipments were met during 1968, representing an accomplishment through the combined efforts and cooperation of the Refinery staff, other Departments of the Company and contractors.

A project for extending the Refinery's storage capacity by 1,500,000 barrels was approved during the year. Detailed engineering has been carried out by the Refinery staff and most material and equipment orders have been placed. A plot of land to the west of the Refinery area has been allocated by the Shuaiba Industrial Development Board. This project will permit the Refinery to operate with a greater degree of flexibility, therefore reducing manufacturing costs, and will also provide greater flexibility in the marketing programme.

The Refinery staff consist of 826 personnel at the end of the year. These personnel represent 31 different nationalities. Re-



Control Room at Shuaiba Refinery

cruting efforts continued throughout the year to complete staffing and, in particular, Refinery operators with previous refinery experience to staff scheduled unit positions. Since startup, trainee operators have been trained and promoted to a number of operating positions.

The Umтали Refinery at Feruka Valley, Southern Rhodesia, remained inoperative during 1968. All Participants, including KNPC, continued refraining supplies of crude oil to the Refinery, in compliance with the decision of the Security Council of the United Nations to place an embargo on all oil shipments to Southern Rhodesia.

UMTALI

REFINERY

INTERNATIONAL MARKETING

International Marketing Department is composed of a team of fifty individuals, coming from thirteen different nationalities and are conversant in a wide range of languages. This diversity in nationality and language facilitates communications with KNPC's customers throughout the world. The staff includes Kuwaitis who are directly engaged in international marketing of petroleum products.

The year 1968 will go on record as an historical year for KNPC. The first shipment of products from the Shuaiba Refinery moved aboard the "Mosduke" — a KNPC long chartered vessel — on 9th May, 1968. Ever since, our customers in the Far East, the Middle

Loading Ships with Shuaiba Refinery Products to Various Parts of the World



East and Europe have been receiving Shuaiba products satisfactorily. KNPC products are now being sold not only in cargo lots but also in small parcels to smaller customers ex-terminal tanks by our subsidiaries.

Several new contracts were concluded during 1968. These vary in length up to five years. Thus, assurance of outlet has been kept well-balanced with planned output for years to come. An important contract has been concluded with another national oil company, Pertamina of Indonesia. This contract, in addition to being mutually attractive, is a pioneer step in enhancing cooperation between national oil companies.

1968 marked KNPC'S entrance into the international bunkering business. The organization of an efficient bunkering group to service an international network of bunker ports where service and efficiency are of paramount importance has been achieved successfully. KNPC's bunkers are now readily available in numerous ports in Europe, the Middle East and the Far East.

Two new subsidiaries of KNPC (KSC) were incorporated in Kuwait. Firstly, KNPC Far East (KSC), whose registered branch in Japan acts in a liaison capacity and, in conjunction with the sales activities carried out by International Marketing, is responsible for the administration of sales of KNPC's products in Japan. Additionally, the branch of this subsidiary is responsible for obtaining market intelligence in that area. Secondly, KNPC Trading and Transport (KSC) has as its main function the handling of certain international sales and product exchange transactions.

KNPC (UK) Ltd., as well as KNPC A/S in Denmark, have been actively engaged in sales and deliveries of products ex their tanks.

KNPC acquired a new trade mark during 1968. Registration of this trade mark has been applied for in about 20 countries. The original trade mark will be retained for use in Kuwait only.

KNPC has become established during 1968 as a truly international company. Shuaiba products are being consumed throughout the world. Acceptance of KNPC as an independent company by both large and small consumers as well as international oil companies is a notable achievement.

FINANCE

Development of international operations has been the major feature affecting the finances of the Company during the year 1968.

Shipment of petroleum products commenced on 9th May, 1968 but delay has occurred for various mechanical reasons in the start-up of certain major units at the Shuaiba Refinery, which are essential for the proper development of our international trade in petroleum products.

The Directors have considered it appropriate to account income and expenditure from such transactions in a Refinery Development Account which shows a net debit balance, as at 31st December, 1968, of K.D. 4,813,285.

As mentioned elsewhere in this report, it is expected that the difficulties at the Refinery will be overcome during 1969. Further development expenditure will therefore be incurred in 1969 and the accumulated shortfall to be carried forward on this account cannot be determined until the units are eventually commissioned. In order to finance this expenditure, the Directors consider it advisable to set aside to a Development Reserve Account a sum equal to the balance on the Refinery Development Account. This has been made up by the transfer of K.D. 4,813,285 from General Reserve. This transfer will require the approval of the Shareholders. When the final amount of the Development Account is determined, it will be written off over periods considered appropriate.

No doubt the Shareholders will appreciate that the substantial long-term investment required for expansion of international operations and development of the Shuaiba Refinery are making very heavy demands on the cash resources available to the Company.

Therefore, and in order to meet these investments, the Board of Directors proposes that no dividends be paid to the Shareholders for the year 1968; similarly, it proposes non-payment of Directors' fees for the same year.

KUWAIT NATIONAL PETROLEUM CO. K.S.C.
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 1968

1967			1968	
KD.	KD.		KD.	KD.
6,552,450		Local Market Sales		6,764,148
2,699,098		Cost of Products and Marketing Expenses.		2,574,453
3,853,352				4,189,695
561,370		Interest and Dividends		1,027,794
4,414,722				5,217,489
	392,743	Administrative Expenses	492,775	
	91,922	Depreciation (See Note 3)	112,076	
	3,500	Deputy Managing Director's Remuneration	3,500	
	3,500	Auditor's Fees	11,500	
	79,358	Provision for Leave Pay, Terminal Indemnities and Pension Fund (See Note 3)	120,089	
696,023	125,000	Provision for Investments	—	739,940
3,718,699		Non-recurring Expenses in Previous Year		4,477,549
765,408				—
2,953,291		NET PROFIT		4,477,549
		APPROPRIATIONS AND DIRECTORS' FEES		
	295,329	Statutory Reserve	447,755	
	1,741,501	General Reserve	4,029,794	
	900,000	Dividend	—	
	16,461	Directors' Fees	—	
2,953,291				4,477,549

KUWAIT NATIONAL
BALANCE
AS AT 31ST

1967		1968	
KD.	KD.	KD.	KD.
SHARE CAPITAL			
AUTHORISED, ISSUED & FULLY PAID			
15,000,000	7,500,000 7,500,000	7,500,000 7,500,000	15,000,000
CAPITAL RESERVES			
23,708	Share Premium Account		23,708
REVENUE AND OTHER RESERVES			
	Statutory Reserve	2,296,687	
9,376,076	General Reserve	11,756,938	
	Less: Transfer to Development Reserve	4,813,283	
24,601,784	SHAREHOLDERS' INTEREST	6,943,633	9,240,340
	LOANS (See Note 4)	24,266,048	
30,306,493	Loans by the State in accordance with Law No. 43 of 1965	25,000,000	
	Bank Loans	18,492,143	43,402,143
CURRENT LIABILITIES			
2,547,670	Accounts Payable	4,603,655	
	Accrued Expenses	1,017,590	5,621,245
PROVISIONS			
460,012	Leave Pay, Terminal Indemnities and Pension Fund	661,274	
	Investment Contingencies	123,000	786,274
OTHER CREDIT BALANCES			
951,741	Dividend	—	
	Unclaimed Dividends	10,637	
	Unclaimed Application Monies	7,763	18,400
NOTES ON ACCOUNTS AS AT 31ST DECEMBER 1968			
STOCKS AND STORES:			
(1) Stocks of oils and chemicals are valued at cost or approximate net realisable value as is appropriate.			
(2) Maintenance stores are valued at or under cost.			
REFINERY DEVELOPMENT ACCOUNT:			
(3) The Account comprises all the costs of operating the Refinery and marketing its products, less the proceeds from sales of products, for the period from 9th May, 1968, the date of first shipment, to 31st December 1968. The opening costs include:			
	Depreciation of Refinery	KD. 1,528,676	
	Provision for leave pay & terminal indemnities	KD. 160,533	
	Bank loan interest	KD. 841,945	
7,735,594		1,991,656	
LOANS:			
(4) The bank loan is payable within five years in annual instalments commencing 30th September 1968.			
(5) The Government loan is repayable in more than five years.			
COMMITMENTS AND CONTINGENT LIABILITIES			
(3) (i) There are commitments outstanding on contracts for Capital expenditure amounting to an estimated KD. 50,000 not provided for in these accounts.			
(ii) There are contingent liabilities in respect of claims amounting to KD. 150,000 which are being disputed by the Company.			
FOREIGN CURRENCIES:			
(5) Rates used for the conversion of foreign currencies during the year were as follows:			
	£ 1	KD. 5/6	
58,867,700	US. Dollar 1	0.357	
	D. Kr. 1	0.357	
		0.348	74,174,110

PETROLEUM CO. K.S.C.
SHEET
DECEMBER 1968

1967		1968		
KD.	KD.	Cost	Accumulated Depreciation	Net Book Value
KD.	KD.	KD.	KD.	KD.
FIXED ASSETS				
	Head Office Land, Buildings and Leasehold Property	505,395	52,194	453,202
40,840,600	Shuaiba Refinery	50,838,433	1,526,676	49,311,757
	Filling Stations, Depots & General Equipment	876,749	415,942	460,807
	Furniture, Fixtures & Fittings	185,668	104,317	81,351
	Motor Vehicles	15,748	39,855	37,286
41,228,149		52,465,951	2,136,415	50,329,516
INVESTMENTS IN SUBSIDIARY COMPANIES				
	Shares at Cost, fully paid		187,288	
	Loans		464,470	
560,867	Current Accounts		456,375	1,103,133
TRADE INVESTMENTS				
	Shares at Cost, fully paid		900,000	
827,858	Loans		279,832	
	Current Accounts		73,052	1,254,884
CURRENT ASSETS				
	Stock of Petroleum Products (See Note 1)		2,805,378	
	Maintenance Stores (See Note 2)		1,064,465	
	Trade Accounts Receivable	4,578,894		
	Less: Provisions	11,000		4,267,894
	Deposits with Banks and Others		11,767,796	
	Dividend and other Receivables		331,022	
7,735,594	Cash and Bank Balances		1,167,208	20,803,733
FICTITIOUS ASSETS & OTHER DEBIT BALANCES				
	Refinery Development Account (See Note 3)		4,813,285	
	Less: Development Reserve		4,813,285	—
	Deferred Refinery Expenditure	6,767,620		
	Payments & Other Deferred Expenditure	1,110,031		675,061
7,917,232	Application Monies with Banks	39,381		7,953
				682,824
58,867,700				74,174,110

SULAIMAN AL-FOUZAN
Deputy Chairman

AHMAD SAYED OMAR
Chairman & Managing Director

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

I have examined the balance sheet of the Kuwait National Petroleum Company (K.S.C.) as at 31st December, 1968 and the profit and loss account for the year then ended, together with the notes thereto. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing 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, together with the notes thereto, 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 year.

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

Kuwait, 25.3.1969.

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 everlasting support to the national economy and to H.E. the 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 Development Board for their valuable assistance in furthering the interests of the Company on every occasion.

Board of Directors

THE HISTORY OF THE

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