

Director's Report For the year 2004

Dear Shareholder

On behalf of your Board of Directors, I am very pleased to announce yet another fine performance by the company in 2004. The profit before tax of RO 2.6 million is significantly higher (18.1%) than last year; however the after tax figures are lower (12.6%) than last year given that a write back of tax provisions and the introduction of deferred tax boosted after tax profit in 2003 considerably. This sixth year as a public company has proven the most challenging given the need to transform all of our sites from BP to Oman Oil whilst maintaining our performance, reputation and customer base; the staff met these challenges and once again showed their commitment and professionalism.

The financial statements of the company together with the management review should be read in conjunction with this report.

Operating environment

Our performance, in an environment where competition is increasing, has been creditable with volumes and turnover exceeding 2003 by 15.9% and 20.7% respectively.

The environment in 2004 was both challenging and deeply rewarding given that we, as a company, completed the reimagining of the remaining 54 retail sites, our vehicles and all buildings in the early part of 2004. This was done in record time and within budget.

The retail sector was the most active it has been in many years with 5 new sites being commissioned and 5 rebuilt. This level of development in strategic locations will ensure our continued performance into the future. It is pleasing to see that the whole process around the granting of permits is being addressed given that there is a historical imbalance in allocations and without suitable permits our ability to grow in the future will be severely hampered. In addition, the issue around margins will need

to be addressed if we are to meet the ever increasing standards required by our customers. The decision taken 2 years ago to concentrate on our various "Card" offers has produced very encouraging results and is an area in which we have seen marked growth. Retail's performance in 2004 has once again ensured that our targets were exceeded.

Other areas of the business performed well, with volumes increasing and in a number of cases margins holding their own.

Aviation failed to meet what was an ambitious target but produced results which were credible. The change in aviation pricing instituted after representation from all marketing companies now places Oman on a comparative basis with all other airfields in the region and early indications are that this may see an upturn in volumes but at slightly reduced margins.

In general the company performed well and has placed itself in a strong position for the future.

Corporate Governance

Your Board is pleased to report that the Company has conducted all its business dealings ethically and legally and complied fully with the requirements of the laws of Oman together with the CMA regulations.

The Audit committee has performed its duties exemplarily and all reports indicate that we have a sound internal control process in place and that all issues raised have been addressed. In accordance with the CMA regulations on rotation of statutory auditors, the statutory auditors Ernst & Young were replaced with KPMG at the AGM held in March 2004. On behalf of the Board of Directors I would like to place on record our appreciation to E&Y for the years of professional service provided to the Company.

There is a very strong governance culture within your company with transparency and openness ensuring that all stakeholders' interests are protected. We will continue, as in the past, to ensure a strict adherence

to governance requirements as raised by the CMA, who have been very understanding of all issues raised with them this year.

Financial Results

Once again I am pleased to announce a particularly pleasing financial performance for the year 2004. Turnover increased by RO 12.1 million compared to 2003 due to increased volumes and higher sale prices (particularly in aviation where pricing is linked to global crude prices). This, combined with cost containment, realized a before tax performance exceeding 2003 where, despite a significant increase in depreciation charges arising out of the re-branding of the company, the profit before tax (PBT) for 2004 is RO 2.6 million compared to RO 2.2 million for 2003. As can be seen, this is a significant improvement on 2003 and one which we believe is sustainable in the future. However, despite the higher PBT in 2004, the profit after tax (PAT) was 12.6% lower at RO 2.3 million. This is due to "one off" credits in 2003 on account of write back of tax provision of earlier years and deferred tax.

The balance sheet remains strong with continued focus on debtors and cash management. Debtors have increased by 2.7 million primarily due to aviation sales (secured) and dues from government companies. The continuing focus on business improvements and new opportunities has led to an aggressive capital expenditure spend of RO 3.1 m, funded through internal accruals, thereby increasing the asset base. This has resulted in an increase in the net asset value per share to RO 1.99 from RO 1.89 in the previous year.

Your Board remains committed to the objectives of generating consistent profits and maximising the long-term value for our shareholders.

Dividend

Your Board of Directors has recommended a cash dividend to shareholders of 300 Baisas per share that represents a payout of 30% (2003 -26 %) of the ordinary paid up share capital. The recommendation

is in line with your Board's policy of maintaining a consistent dividend policy.

Health, Safety and Environment

Safety continues to receive the level of attention one would expect from a world class company. I am pleased to announce that the jointly owned terminal at Mina Al Fahal achieved 12 years without a reportable injury and whilst there was one vehicle accident involving one of our contractors there were no serious injuries or other reportable incidents this year.

The focus on the environment and our responsibility as a responsible corporate citizen ensured that the environment received added attention this year with additional tests on both ground water and air quality being carried out. Relations with the Muscat Municipality & Ministry of Regional Municipalities, Environment and Water Resources were, as always, extremely cordial.

The company's commitment to promoting a culture of safety awareness continues, with a number of internal initiatives being introduced to achieve this. Your company will continue to attain the highest level of safety performance as it is believed to promote efficiency and ultimately good business.

People

The staff commitment and level of performance was responsible for the fine performance in 2004. Even more encouraging was that this was done against a background of changing processes, procedures and image; at all times they showed a high level of professionalism.

In line with the national initiative to develop young local talent in the country, your Board has embarked on a programme which over 3 years will take the localisation levels to 90% from its present 74%. This will be done in such a manner that will ensure a smooth transfer of skills whilst maintaining the high levels of performance that you have come to expect from this company.

The Future

Your Board of Directors believes that a review of the strategic direction of the company is necessary given the size of the internal market and its inability to produce material increases in returns in future, this together with competitor activity necessitates the need to look at a 5 to 10 year horizon if we are to grow and achieve "landmark status" for our sites throughout the Sultanate.

A lot of work has taken place in identifying suitable investment opportunities in the region and I am pleased to say that our partnership with the Sarooj group to expand into the region has enabled us to establish sound contacts in a number of locations. This area of our business, where it is believed significant gains will be seen in to the future, will be receiving greater attention in 2005.

Formal agreements have been reached with BP in both the Lubricants and aviation businesses, whereby we will continue to market their lubricants and receive technical, commercial and marketing assistance for our aviation business. These relationships, we believe, will be most beneficial to us whilst maintaining links with a global oil company.

Your Board is confident of yet another good performance in 2005 with the possibility of new investments and growth being realised.

I would like to take this opportunity of thanking our many customers, the Government departments we have had dealings with, our dealers and their staff, for their continued support. I would reiterate our unwavering commitment to the provision of the highest level of service at all times.

On behalf of the Board of Directors, I would like to express our sincere gratitude to His Majesty Sultan Qaboos bin Said. Under his wise leadership and guidance the country continues to be on the path to further prosperity, growth and development.

In conclusion all that remains for me is to wish all of you a successful and prosperous 2005.

On behalf of the Board of Directors

**Salim Abdullah Al Rawas
Chairman**