

نفط عمان
omanoil



annual report 2005



His Majesty Sultan
Qaboos bin Said





Contents

Board of Directors	4
Directors' Report	5 - 6
Management Team	8
Management Discussion & Analysis Report	9 - 12
Accountant's Report on Corporate Governance	14
Corporate Governance Report	15 - 22
Summary of Performance	24 - 25
Auditor's Report	26
Balance Sheet	27
Income Statement	28
Cash Flow Statement	29
Statement of Changes in Equity	30
Notes	31 - 42

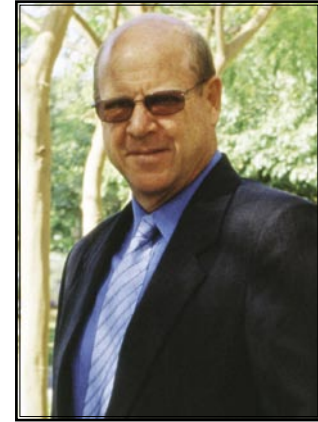
Board of Directors



Salim Abdullah Al Rawas
Chairman



Mulham Bashir Al Jarf
Vice-Chairman



Michael G Wilson
Managing Director



Salem ben Nasser Al Ismaily
Director



Amal bint Suhail Bahwan
Director



Rawan Ahmed Al-Said
Director



Assilah bint Zaher Al Harthy
Director



Ahmes Al Rawas
Director



Khamis bin Mohammed al Amry
Director



Abdul Kader Darwish Al Balushi
Director



Amit Mittal
Finance Manager & Company Secretary



Directors' Report

Dear Shareholder

On behalf of your Board of Directors, I am very pleased to announce yet another fine performance by the Company in 2005.

Oman Oil's seventh year as a public company has been challenging given the positive growth in the economy coupled with our own growth initiatives. All of these placed a strain on the supply situation which resulted in stock outs at some of our sites particularly towards the end of the year. Discussions are being held with the relevant authorities to ensure that supplies are maintained at the required level going forward.

Despite the above, all areas of the business performed well with increased volumes as well as maintaining / marginally improving margins per litre in most businesses. The financial statements of the Company together with the management review should be read in conjunction with this report.

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

FINANCIAL RESULTS

Once again I am pleased to announce a particularly pleasing financial performance for the year 2005. Backed by an underlying growth of 12% in volumes, the net profit after tax surged 39% from RO 2.3 million to RO 3.2 million; a significant increase .

The balance sheet remains strong with continued focus on debtors and cash management. Whilst overall trade debtors have increased; it is heartening to note that the average number of debtor days has reduced to 48 from 55 last year; this is backed by several initiatives undertaken by the Company during the year on receivables management.

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

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.

DIVIDEND

Your Board of Directors has recommended a cash dividend to shareholders of 450 baisas per share that represents a payout of 45% of the ordinary paid up share capital. The recommendation is in line with your Board's policy of maintaining a consistent dividend policy.

STOCK SPLIT

The Board of Directors has also recommended a Stock split. The Board has recommended that the nominal value of its shares be brought down to 100 baisas from the present One Rial. Upon approval by the shareholders and the regulatory authorities, each shareholder will, for every share of face value RO 1 held, get 10 shares with a face value of 100 baisas each.

The Board is of the view that this will increase liquidity to the shares of the Company and consequently enhance the shareholder value. This change is consistent with the practice followed in other major capital markets around the world. The

approval of the shareholders to give effect to this change will be sought at a forthcoming Extraordinary General Meeting that will be held towards the end of March.

PEOPLE

The fine level of performance for 2005 has been possible due to the commitment and professionalism shown by the management and the staff of the Company to whom the Board would like to express their sincere thanks. The policy of recruiting young energetic talent this year will reap dividends in the future, and I am pleased to announce that our Omanisation process has progressed well and the level is now at 80%.

THE FUTURE

The Board of Directors has met to review the strategic direction of the Company in order to maximise growth potential both inside and outside of Oman. A number of promising options have been identified and will be actively pursued going forward. The Board will keep the members and public updated on these developments.

The year has seen progress around regional expansion opportunities being explored by your Company together with its JV partner. I am pleased to say that relationships established in Iraq have resulted in trading opportunities for fuel supply related equipment, executed by the JV. Discussions are at an advanced stage in some countries for the development of mutually beneficial retailing projects, and though progress has been slower than expected we believe that this area of our business has the potential to enhance our performance in the future.

Your Board is confident of yet another good performance in 2006 given the healthy growth of the economy and with the possibility of new investments and growth being realised.

I would like to take this opportunity to thank our many customers, the Government departments we have had dealings with and our dealers and 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 2006.

On behalf of the Board of Directors



Salim Abdullah Al Rawas
Chairman





Management Team



Left to right front - Michael Wilson, Samira Fadhlani, Naresh Sujan & Hamed Al Barwani
Left to right back - Saif Al Jasri, Shaukath Assadi, Sadiq Al Moosawi, Amit Mittal & Paul Phillips

Management Discussion & Analysis Report

2005 once again saw a strong performance by the Company in all sectors with the Company meeting all of its financial, safety and performance targets. This performance set against a background of increased competition in the market place, supply constraints from ORC and maintaining our market position was most encouraging.

All sectors recorded increased volume growth (overall increase of 12%); this growth was not restricted to the border sites but seen across the whole country on the back of a buoyant economy and various initiatives implemented by us during the year. We managed in most cases to improve the gross margin in terms of baiza per litre sold due to an increased number of sites being operated by the company (affording it the wholesale and retail margin) and a better product and customer mix. As always cost containment was constantly monitored. Our performance would have been further enhanced had we been provided with our full requirement of product particularly petrol towards the end of the year.



FINANCIAL PERFORMANCE

Turnover increased 27% compared to 2004 due to increased volumes and higher selling prices (increase in global aviation fuel prices and local increase in gas oil prices). However, higher selling prices accompanied a similar increase in cost of fuel supplied by the Government and hence did not improve our profitability; on the contrary due to increased

operational costs of transportation, increased working capital and consequent interest costs, such increased selling prices actually put a pressure on costs. However, higher volumes accompanied with cost containment measures led to the company realising a performance exceeding 2004 on all key financial parameters.

Our continual investment in building & commissioning new sites, which will continue into the future, has increased the depreciation charge. Despite this, the Profit After Tax (PAT) for 2005 at RO 3.2 million is a significant improvement (39% increase) over RO 2.3 million in 2004.

Management focus continues to be on cost and operational efficiencies and effective margin management in targeted areas of the commercial and aviation sector.

SECTOR PERFORMANCE

RETAIL

2005 has been a very eventful year for the retail business with the business growing 14% in volume terms (value terms, in our opinion, is not a relevant measure due to the administered price mechanism adopted in the country). We commissioned 5 new sites apart from razing and rebuilding 2 sites. Altogether the level of activity is the highest it has been in a number of years. A major thrust in our "smart card business" (Ejaba and Wayak), increased diesel & super grade petrol sales due to the disparity in prices with the UAE and an emphasis on the offer being made to our customers, all of these ensured a good performance this year.

The "Quick Shop" concept is gaining momentum with the construction of four new shops this year and a number being planned for 2006. The shops, in themselves, are not material contributors to our performance but I am pleased to say that this year they have contributed positively to our performance. They are part of the retail offer and will be receiving added attention in 2006.

The "smart card business" continues to be a growth driver (with a 37% growth in volumes partly from existing customers and partly from new accounts) with new features like

e-invoicing & Arabic invoicing developed and other features constantly being developed.

The Company launched 'basma', a first to market multi-partner Rewards Programme in the Sultanate. 'basma' is designed for the cardholders to 'earn as you spend' and give something back to our loyal customers. The programme is jointly owned by your Company and BankMuscat with Lulu Hypermarkets and Oman Mobile as co-branded partners. We introduced state of the art handheld terminals (including GSM enabled ones for remote sites with no landlines) throughout our network and all our filling stations now accept debit and credit cards.

During the course of 2005, we also launched the biggest ever retail fuels promotion offering our customers the chance to win RO 100,000 (in association with BankMuscat) apart from 400 winners of free fuel.

We believe that the new builds in 2005 coupled with the permits we have for 2006 will ensure a strong performance into the future.

BULK FUELS

2005 has been another very successful year for the Commercial sector of the business; the fortunes of which are very closely linked to the upsurge in economic activity taking place in the Sultanate. This increase has been most dramatic in the construction sector and I am pleased to say that we have captured the lion's share of this growth particularly in Sohar and lately the major road construction projects. The power station volumes continue to decline and it is believed that in future will not be material to our business. In terms of volume the business grew by an unheralded 11%; this is despite supply restrictions imposed by the refinery in the first half of the year on supplies of gasoil.

It has been very pleasing to see that penetration has taken place in all sectors of the economy and in areas that we were previously not involved in. Our teams have established good relationships with our customers and this sector will increase in its importance going forward. The largest area of concern in this sector is that of debtors' exposure and it is here where

we will have to exercise the greatest control.

AVIATION

Volumes in this sector increased by 6% over last year. This sector's fortune is closely linked to the number of flights coming into & fuelling in the Sultanate, which in turn is closely linked to a) the development of tourism as an industry and b) general level of economic activity in the Sultanate. We are pleased to see that developing Oman as a tourist location is receiving a lot of attention which will undoubtedly realise benefits to the industry and country in the long term.

The future of Oman as a refueling destination for aircraft will be closely linked to the pricing structure employed and it is with this in mind that preliminary discussions with interested parties have taken place to make this a competitive location. Success in this area will realise significant revenues for the country and the Company.

During the course of the year, we have tendered for and secured a two year contract for supplying aviation fuel to the Royal Air Force of Oman (RAFO)'s new base at Musannah; RAFO operations at this base are expected to grow significantly going forward and we are proud to be part of that growth.

The association with Air BP for marketing, commercial and insurance support has continued to be mutually beneficial. We have successfully negotiated a significant reduction in the fees paid to Air BP for commercial support for invoicing and collections.

LUBRICANTS

As you may be aware, your Company is the exclusive distributor in the Sultanate for two of the world's leading lubricant brands BP & Castrol. The world rise in base oil prices impacted selling prices of lubricants to our customers with 2 increases being endured during this period, regrettably until a significant drop in crude prices are seen this trend will continue with pressures on margins and customers being asked to accept further increases. The quality of the lubricants, the brand value and the service standards of our lubricants sales team helped to ensure that our customers were not too disadvantaged by





these events and that the business continued to grow by 5% (volume terms) over 2004. Efficiencies in managing the supply chain (including reducing stock levels) and receivables management (reduced aggregate outstanding by 14 days) have contributed to increasing the operating margins.

The business is further streamlining operations by integrating the BP and Castrol sales teams as part of a customer relationship management initiative currently underway. This should help focus efforts to achieve further penetration in the market in 2006.

STORAGE AND DISTRIBUTION

The Mina Al Fahal managed terminal achieved yet another milestone in reaching 13 years without any injuries being incurred, this once again is indicative of the world-class operation we have and one which is pivotal to the success of the business.

The substantial increase in volumes seen by both companies operating within the terminal has been handled both safely and efficiently, however thought will have to be given to increasing the storage capacity in the near future as the volumes continue to grow and place a greater strain on the infrastructure; this is being done together with the joint owner of the terminal whilst keeping in mind the commissioning of another refinery at Sohar will help to ease the pressure on this facility.

2005 has been yet another successful year for the terminal and all efforts are being made to maintain its world class performance.

HEALTH, SECURITY, SAFETY AND ENVIRONMENT

The company is sad to announce that a contractor employed by us was involved in a road accident in which two people died. We view any incident or accident as serious and a full investigation has been carried out and lessons learnt passed on to all our other contractors to ensure this type of thing does not happen again.

2005 once again saw a continued focus on HSSE for all

staff together with care for the environment receiving added attention. An integral part of the performance contract was the completion of both “near misses” and “advanced safety audit” programme targets and in most cases these have been achieved. The appointment of departmental champions has assisted in reinforcing the HSSE message throughout the Company.

We have this year carried out a number of environmental initiatives around ground water and air pollution at two of our sites and the terminal with the result that we are now in the position to identify areas of concern rapidly. Our relationship with the Muscat Municipality & Ministry of Regional Municipalities, Environment and Water resources continues to be good with all points being discussed in an open and constructive manner for the benefit of our customers and the country as a whole.

REPUTATION

Ali Al Habsi, the dashing young goalkeeper of the Oman national football team, became the brand ambassador for the Company during the year as he represents some of the core values of the company which are young, energetic and Omani!

There have been no issues during 2005 which would affect our reputation adversely, if anything, I believe that we have enhanced our reputation with the public given our 100% Omani status together with our interaction with our customers and the public at large.

We have continued to focus our social commitment in the areas of youth development, education and the environment and listed below are some of the events we have sponsored or contributed to during the year

- Early Intervention Centre
- Wheelchairs for the disabled
- Shabab Oman visit to Europe
- HM’s Cup final at Sohar and other sporting events
- “Self help” assistance for the ladies of Sidab

All of the above have been designed to put back something into the society in which we live and operate in an educational, financial and fun way.

PEOPLE

Our staff have once again risen to the challenge of the market place and through their energy and commitment produced the outstanding results we see this year. The age and qualification profile has improved dramatically this year with an age reduction of 8% and an increase by 50% in those with some form of tertiary qualification being seen.

The issue of our people development has featured high on Management's agenda this year with particular emphasis on training and development. We continue to ensure that our staff receives the requisite training as it will ensure we maintain our skills levels and I am pleased to say that we have achieved levels of a minimum of 5 days per employee in 2005.

We have embarked on an aggressive campaign of recruitment with the focus being on young talent who have the right attitude "to make a difference".

We are working towards achieving our phased nationalisation targets as agreed with the Ministry of Manpower last year. The transition is being handled in a manner so as to minimise disruption to your business and as also respect the aspirations of the affected staff. Our Omanisation level as at the end of 2005 was 80%.

JOINT VENTURE

I am pleased to report that the 50:50 joint venture company established by your company together with the Al Sarooj group of companies for exploring opportunities in the oil and gas sector outside of Oman had secured contracts to supply fuel dispensing equipment to the Ministry of Oil in Iraq. The company has made a small trading profit on these supplies and the results of your company's share in the joint venture are appropriately reflected in the accounts of your Company.

INTERNAL CONTROLS

Apart from the controls exercised by the Management in the day to day running of operations, the control environment within the company continued to be monitored by Moore Stephens, our internal auditors. There was no serious breach

of controls reported by them during the period.

During the year, the Audit committee was strengthened with the addition of another finance professional on the committee. The committee members continue to be vigilant; guiding the Company where necessary.

A team of auditors / inspectors from the Capital Market Authority had reviewed the company's compliance to various Corporate Governance requirements early in 2005 and found the company to be in compliance with no major areas of concern being found.

OUTLOOK

2006 will be no less challenging than 2005 with the added complexity around adequate fuel supplies to meet our ever increasing customer base.

Retail will continue to be the cornerstone of the business and I see continued growth given our new site availability and a growing network of shops and an enhanced card offer. Aviation performance will see an upturn given the increase in the number of Gulf Air flights now operating out of Seeb Airport. All other areas have established sound bases in 2005 for growth and this will put us in a "good place" for the future. Our growth into the region will be seen in 2006 as the ground work carried out in 2004 and 2005 starts to pay dividends.

In all cases the market will determine our performance but I am confident that we are in a strong position for growth given our solid base, committed staff and flexibility of action.

On behalf of the Board



Michael G Wilson
Managing Director





Accountant's Report on Corporate Governance



KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
PC. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

Report to the Shareholders of Oman Oil Marketing Co. SAOG (“the Company”) of Factual Findings in connection with the Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority (“CMA”) Circular No. 16/2003 dated 29 December 2003 with respect to the Corporate Governance Report of the Company (“the Report”) and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance (“the Code”) issued under Circular No. 11/2002 dated 3 June 2002, as amended. The Report is set out on pages 15 to 22.

Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Company’s application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the Company’s Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing other matters might have come to our attention that would have been reported to you.

continued....



continued....

This report is solely for the purpose set forth in the first paragraph above, and for inclusion, with the Report, in the Company’s annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Company’s annual report for the year ended 31 December 2005 and does not extend to the financial statements or any other reports of Oman Oil Marketing Co. SAOG, taken as a whole.

23 January 2006

KPMG



Corporate Governance Report

In accordance with the Capital Market Authority (CMA) circular dated 3rd June 2002 and subsequent amendments, we are pleased to present the fourth Corporate Governance Report of Oman Oil Marketing Company SAOG for the year ended 31st December 2005.

In line with Circular 16/2003 dated 29th October 2003 issued by H.E. Yahya bin Said bin Abdullah Al-Jabri, Executive President of the Capital Markets Authority, KPMG have issued a separate factual findings report on the Company's Corporate Governance Report for the year ended 31st December 2005.

A. Company's Philosophy on Code of Corporate Governance

In line with CMA guidelines, the Board has adopted a set of governance policies that covers its relationship with the shareholders and the conduct by the Board of its own affairs.

The Company's purpose is to create and to maximise long-term shareholder value by selling its goods and services to the public. In order to achieve this in an ethical and transparent manner our processes and procedures are directed at ensuring that we comply with the best business practices possible whilst complying with the Code of Corporate Governance as laid down by the Capital Market Authority.

For Oman Oil Marketing Company, maintaining the highest standards of corporate governance is not a matter of compliance but an inner belief; it is a way of life and an integral part of the Company's core values.

The board is fully aware of its fiduciary responsibilities in the widest sense of the term by respecting minority shareholders' rights and operating in an ethical way in every thing it does, most importantly it acts as trustees for all stakeholders.

Key aspects of the Company's Governance Processes are:

- Clear statements of Board Processes and Board-

Executive linkage

- Disclosure, accountability, transparency, adequate systems and procedures to monitor the state of affairs to enable the Board in effectively discharging its responsibilities to the stakeholders of the Company
- Identification and management of key risks to delivery of performance of the Company

A team of auditors / inspectors from the Capital Market Authority had reviewed the Company's compliance to various Corporate Governance requirements early in 2005 and found the company to be in compliance with no major areas of concern being found.

Royal Decree No. 99/2005 published on 5th December 2005 made some significant amendments to the Commercial Companies Law in respect of Directors remuneration, period within which to hold the Annual General Meeting etc. The Company was already in compliance with the amended provisions.

B. Board of Directors

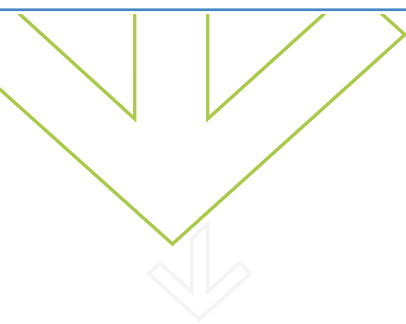
As of the year ended 31st December 2005 the Board of Directors had 10 members comprising of one Executive Director (Managing Director) and nine Non-executive Directors. The Non-executive Directors included five members who were Independent Directors. All Directors with the exception of the Managing Director were Omani nationals. The Executive and Non-Executive Directors are accomplished professionals and experts in their respective corporate fields, ensuring proper direction and control of the Company's activities.

The Board of Directors had four meetings during the last year ended 31st December 2005. The dates were:

- 17th January 2005
- 18th April 2005
- 13th July 2005
- 15th October 2005

The details of the Directors of the Board, their Directorships and attendance at Board meetings are as follows:

No.	Name of Director	Position/type of Directorship	Board Meetings attended during tenure as director	Directorship in other SAOG companies
1	Salim Abdullah Al Rawas	Non Executive Chairman	3 of 4	Dhofar International Development & Investment Holding Company SAOG Dhofar Insurance SAOG Dhofar University SAOG
2	Ahmed bin Salim Al Wahaibi (till 15 th March 2005)	Non Executive Vice-Chairman	1 of 1	None
3	Mulham Bashir Al Jarf (from 15 th March 2005)	Non Executive Vice-Chairman	3 of 3	None
4	Michael G Wilson	Managing Director	4 of 4	None
5	Salem Ben Nasser Al Ismaily	Non Executive, Independent Director	3 of 4	Oryx Leasing Co SAOG Bank Muscat SAOG
6	Assilah bint Zaher Al Harthy	Non Executive Director	3 of 4	None
7	Amal bint Suhail Bahwan	Non Executive, Independent Director	2 of 4	Oman Ceramics Co. SAOG National Pharmaceutical Industries Co. SAOG
8	Khamis bin Mohammed Al Amry	Non Executive, Independent Director	4 of 4	None
9	Abdul Amir bin Saied Mohammed (till 15 th March, 2005)	Non Executive, Independent Director	1 of 1	Gulf International Chemicals SAOG Oman Fisheries SAOG
10	Ahmed bin Abdullah Al Rawas	Non Executive Director	2 of 4	Dhofar International Development & Investment Holding Company SAOG Dhofar Cattle Feed Co SAOG Salalah Mills Co SAOG
11	Abdul Kader Darwish Doshambah Al Balushi	Non Executive, Independent Director	4 of 4	Oman Ceramics Co SAOG
12	Rawan Ahmed Al-Said (from 15 th March 2005)	Non Executive, Independent Director	3 of 3	National Bank of Oman SAOG Oman National Investment Holding Company SAOG



All Directors who were Directors of the Company as on 15th March, 2005 except Mr. Abdul Amir Bin Saied Mohammed, Mr. Ahmed Bin Salim Al Wahaibi and Mr. Ahmed Bin Abdullah Al Rawas attended the Annual General Meeting held on the said date.

The Board of Directors manages and supervises the business and affairs of the Company in a stewardship role. The day-to-day management is delegated to the officers of the Company. Any responsibilities that have not been delegated to the officers or to a committee of the Board remain with the Board.

In order to facilitate proper governance the following information amongst others is provided to the Board:

- Review of operating plans of business, capital budgets and updates
- Quarterly/annual results of the Company and its business segments
- Quarterly performance on Health Safety Security and Environment
- Reports of fatal, serious accidents or dangerous occurrences
- Briefing by the Audit Committee chairman
- Issues involving possible public or product liability claims of substantial nature
- Any significant industrial relations problems
- Policies / procedures as are deemed important to place before the board

C. Audit Committee and other Committees

Audit Committee

a) Terms of Reference

- To monitor all reporting, accounting, control and the financial aspects of the executive management's activities

- To investigate any activity within the Company
- To seek information from any employee
- To obtain outside legal or other professional advice
- To secure attendance of outsiders with relevant expertise, if it considers necessary
- To provide assurance to the Board of Directors regarding the adequacy of the internal control environment within the Company

It may be clarified that the role of the Audit Committee includes matters specified under Annexure 3 of the Code of Corporate Governance for MSM listed companies issued by Circular No. 11/2002 dated 3 June 2002.

b) Composition, Name of Members and Chairperson

As on 31st December 2005 the Audit Committee comprised of 4 Non-executive Directors of which 3 were independent namely:

- Salem Ben Nasser Al Ismaily – Chairman (Non Executive, Independent Director)
- Assilah bint Zaher Al Harthy (Non Executive Director)
- Abdul Kader Darwish Doshambah Al Balushi (Non Executive, Independent Director)
- Rawan Ahmed Al-Said (Non Executive, Independent Director)

with the Managing Director being a permanent invitee and the Company Secretary as the Secretary to the Committee.

Name of Audit Committee Member	No. of meetings during tenure	Meetings attended
Salem Ben Nasser Al Ismaily	4	3
Rawan Ahmed Al-Said (from 15th March 2005)	3	3
Assilah bint Zaher Al Harthy	4	3
Abdul Kader Darwish Doshambah Al Balushi (from 15th March 2005)	3	3
Abdul Amir bin Saied Mohammed (till 15th March 2005)	1	1

Internal control

The Audit Committee, on behalf of the Board has regularly reviewed the internal control environment of the Company. They have met the internal auditors four times during the year to review the internal audit reports, recommendations and management comments thereupon. They have also met the external auditors to review audit findings and the management letter. The Audit Committee has also met the internal and external auditors in absence of management as required under the code of Corporate Governance. The Audit Committee has further briefed the Board on a periodic basis at the board meeting about the effectiveness of internal controls in the Company. The Audit Committee and the Board are pleased to inform the shareholders that an adequate and effective internal control system is in place and that there are no significant concerns.

D. Process of nomination of the Directors

The Directors of the Company can be shareholder directors or non-shareholder directors, provided that a shareholder candidate or the juristic person they represent own at least 1000 shares in the Company. The Company's Articles of Association provides for re-election or replacement of Director's at 2 yearly intervals. There are arrangements for the filling of vacancies by the Board itself on a temporary basis.

Accordingly, Directors of the Company are appointed for 2 years and retire by rotation. Hence each year a few Directors retire and elections for re-electing old Directors, who are eligible and offering themselves for re-appointment or electing new Directors is held at the Annual General Meeting of the company. At the Annual General Meeting held on 15th March 2005, 3 directors retired by rotation of which 1 being eligible offered themselves for re-election whilst 2 decided to retire and 2 new directors were appointed to the Board to replace them.

The process as has been laid down in the Commercial Companies Law and by the Capital Market Authority in conjunction with the Articles of Association of the Company is adhered to.

E. Remuneration Matters

Details of remuneration to the Directors

The remuneration policy is decided by the Board and approved in General Meeting with the intent of attracting and retaining the highest quality of industrialists/ professionals to provide the Company with the right kind of strategic directions and improve operational efficiencies. Accordingly each Non Executive Director is awarded RO 500 as a sitting fee for every Board Meeting attended, RO 300 for every Audit Committee Meeting attended. The total remuneration of the Non Executive Directors is not

to exceed 2% of the net profits of the year (before appropriating such remuneration) with maximum limit of RO 7,500 per annum per Director. For the year 2005, this remuneration is payable pro-rata for the period the director holds the position and in proportion to the number of meetings attended. Total remuneration proposed to be paid to the Non Executive Directors for the financial year 2005 is RO 70,310 (including sitting fees of RO 18,400) subject to approval at the Annual General Meeting. The Executive Director, apart from his contractual benefits and performance linked pay (see section below) & does not get any sitting fees or other remuneration.

Name of Director	Remuneration	Sitting Fees	Total
Salim Abdullah Al Rawas	5,370	1,500	6,870
Ahmed Bin Salim Al Wahaibi	1,790	500	2,290
Mulham Bashir Al Jarf	5,370	1,500	6,870
Michael G Wilson*	115,182	-	115,182
Salem Ben Nasser Al Ismaily	5,370	2,400	7,770
Assilah Bint Zaher Al Harthy	5,370	2,400	7,770
Amal Bint Suhail Bahwan	3,580	1,000	4,580
Khamis Bin Mohammed Al Amry	7,160	2,000	9,160
Abdul Amir Bin Saied Mohammed	1,790	800	2,590
Ahmed Bin Abdullah Al Rawas	3,580	1,000	4,580
Abdul Kader Darwish Doshambah Al Balushi	7,160	2,900	10,060
Rawan Ahmed Al-Said	5,370	2,400	7,770
Total	167,092	18,400	185,492

Fig. in Rial Omani

**The Managing Director is a salaried employee and also a Board member - remuneration comprises of salary, allowances and other benefits as per contract; performance pay is taken on cash basis*

Details of remuneration paid to top 5 officers

The remuneration package of the executives is made up of a fixed and variable component. Fixed component includes salary, valued perquisites and retiral benefits. The variable component is a performance linked bonus & is calculated based on pre-determined parameters of performance.

During the year 2005, the total cost of the top 5 executives of the Company (including the Managing Director) was RO 279,440. The performance pay is taken based on actual payment during the year for the previous year's performance.

F. Details of non-compliance by the Company

The Company has not paid any penalty and no strictures have been imposed on the Company by Muscat Securities Market (MSM)/ Capital Market Authority (CMA) or any other Statutory Authority on any matter related to Capital Markets during the last four years.

G. Means of communication with the shareholders and investors

The Company continues to rank amongst the first few major companies on the MSM to announce its quarterly performance. The quarterly results are published in local Arabic and English newspapers with the full set being available to shareholders who request the same directly of us or to the MSM. The results, apart from being hosted on our website http://www.oomco.com/about_omanoil_annual_report.shtml are also hosted by the MSM on its website www.msm.gov.om.

The Company's website www.oomco.com, apart from the financial performance referred above, has also all relevant information relating to the company and its business available for interested parties.

The Company was visited by several equity research/ investor analysts' during the year 2005; these included overseas investors'. At such visits, the company shared its goals and strategies, financial performance, issues and challenges.

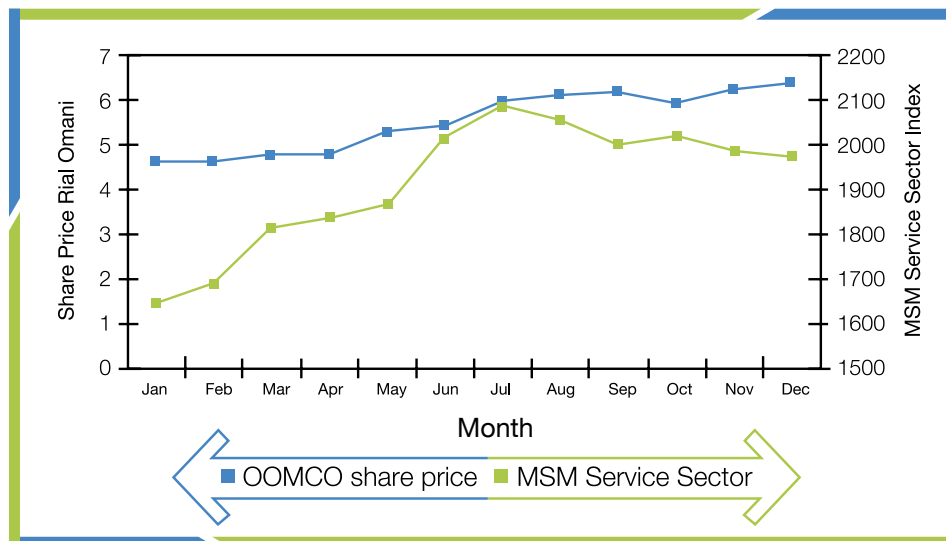
A detailed Management Discussion & Analysis Report forms a part of the Annual Report.

H. Market price data

Market Price Data - High/Low during each month in the Year 2005		
Month	Rate (RO)	
	Highest	Lowest
January	4.61	4.00
February	4.70	4.60
March	4.80	4.16
April	4.82	4.60
May	5.26	4.75
June	5.50	5.26
July	6.00	5.20
August	6.11	5.71
September	6.20	6.10
October	6.15	5.90
November	6.30	6.00
December	6.45	6.21

Performance in comparison to broad based service sector index of MSM

The Company's share price as can be seen from the table next page has outperformed the service sector index of the MSM (to which it belongs). However, during the course of 2005, the Company was informed by the MSM that its share was being removed from the MSM 30 after a review by MSM of various criteria including volume of trading, frequency of trading etc. in the Company's shares.



Distribution of shareholding

Distribution of Shareholding as on 31 Dec 2005	Number of shares	Number of shareholders	% of shareholders
upto 500	138,513	749	2.15%
501 - 1,000	101,350	141	1.57%
1,001 - 2,000	54,397	37	0.84%
2,001 - 3,000	25,235	10	0.39%
3,001 - 4,000	80,674	24	1.25%
4,001 - 5,000	37,012	8	0.57%
5,001 - 10,000	239,374	34	3.71%
10,001 - 100,000	1,282,843	45	19.89%
100,001 and above	4,490,602	8	69.62%
Total	6,450,000	1,056	100.00%

Outstanding GDRS/ ADRS/ Warrants or any convertible instruments, conversion date and likely impact on equity

The Company does not have any GDRs/ADRs/Warrants or any other convertible warrants as on 31st December 2005 and hence the likely impact on equity is NIL.

I. Specific areas of non-compliance with the provisions of corporate governance

There are no areas in which the Company is still not fully compliant with the code of corporate governance.

J. Professional profile of the statutory auditor

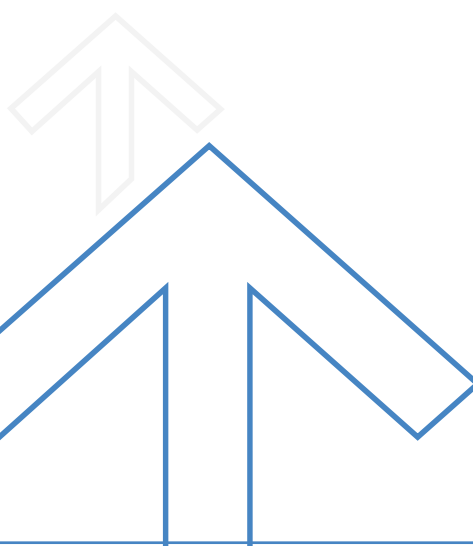
KPMG is an international accounting firm operating in more than 150 countries from over 800 offices and having more than 100,000 staff. KPMG in Oman has over 70 employees including 3 partners and 12 managers and trains the largest number of Omanis (including two Managers) in the auditing and accounting profession.



Salim Abdullah Al Rawas
Chairman



Michael G Wilson
Managing Director

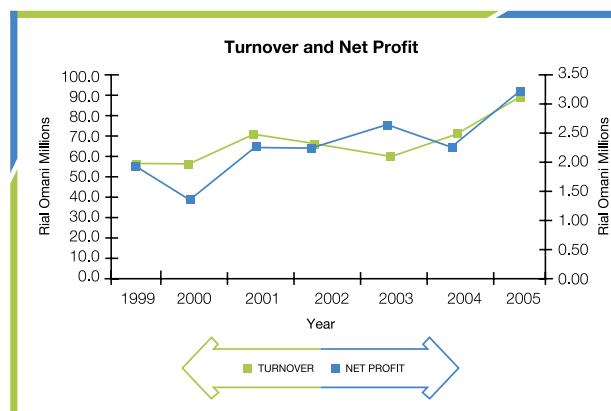
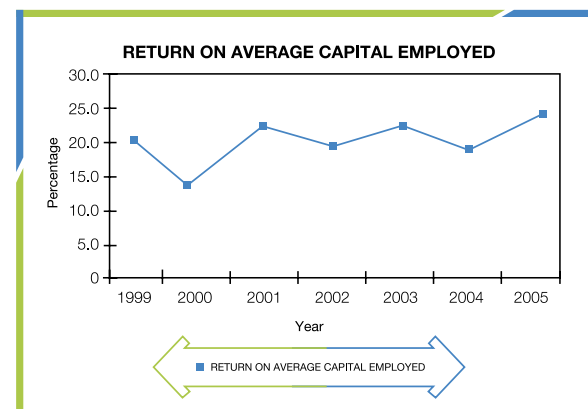
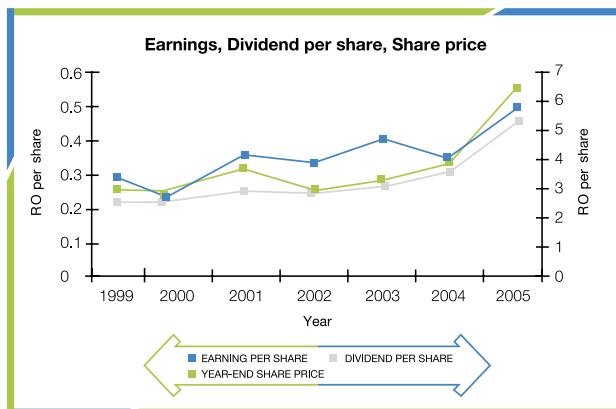




Summary of Performance

	2005	2004	Increase 2005 vs 2004
Earnings per share (RO)	0.492	0.354	39%
Dividend per share (RO)	0.450	0.300	50%
Dividend yield (on offer price of RO 2)	22.50%	15%	
Dividend yield (at 31 Dec 2005 price of RO 6.390; 2004-RO 3.95)	7%	7.60%	
Market capitalisation (RO million)	41.2	25.50	62%
EARNINGS (RO MILLION)	2005	2004	
Turnover	90.2	70.8	27%
Gross Profit	9.4	7.8	21%
Net operating expenses (including depreciation)	(5.7)	(5.2)	9%
Profit before Tax	3.7	2.7	38%
Taxation	(0.47)	(0.34)	37%
Profit after Income Tax	3.2	2.3	38%
DIVIDEND (RO MILLION)	2.90	1.93	50%
BALANCE SHEET (RO MILLION)	2005	2004	
Share Capital	6.45	6.45	
Reserves	2.15	2.15	
Retained earnings	5.45	4.21	
Net assets	14.05	12.81	
Net Assets per share (RO)	2.178	1.986	

Summary of Performance Continued



		1999	2000	2001	2002	2003	2004	2005
		<i>(12 months) annualised</i>						
TURNOVER	Mn	55.8	56.7	70.2	65.6	58.7	70.8	90.2
NET PROFIT	Mn	1.86	1.43	2.25	2.18	2.61	2.33	3.22
RETURN ON AVERAGE CAPITAL EMPLOYED	%	20.6	14.3	22.0	20.0	22.3	19.4	24.0
DIVIDEND PER SHARE	RO	0.221	0.220	0.250	0.250	0.260	0.300	0.450
YEAR-END SHARE PRICE	RO	2.930	2.830	3.730	3.100	3.350	3.950	6.390
EARNING PER SHARE	RO	0.288	0.221	0.349	0.338	0.405	0.354	0.492

Auditor's Report



KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF OMAN OIL MARKETING COMPANY SAOG

We have audited the balance sheet of Oman Oil Marketing Company SAOG ("the Company") as at 31 December 2005 and the related statements of income, changes in equity and cash flows for the year then ended, as set out on pages 27 to 42.

Respective responsibilities of the Board of Directors and the Independent Auditors

These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles

continued....



continued....

used and significant estimates made by the Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Oman Oil Marketing Company SAOG as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the disclosure requirements of the Capital Markets Authority and comply, in all material respects, with the Commercial Companies Law of 1974, as amended.

23 January 2006

KPMG

Balance Sheet

as at 31 December

	<i>Notes</i>	2005 RO	2004 RO
NON-CURRENT ASSETS			
Property, plant and equipment	<i>3 & 10</i>	9,634,075	9,005,490
Interest in Joint Venture	<i>4 & 19</i>	47,526	20,000
Deferred tax	<i>13</i>	23,896	79,759
TOTAL NON-CURRENT ASSETS		9,705,497	9,105,249
CURRENT ASSETS			
Inventories	<i>5</i>	2,111,309	1,517,894
Accounts receivable and prepayments	<i>6</i>	12,296,774	11,062,922
Bank balances and cash		2,300,690	684,572
TOTAL CURRENT ASSETS		16,708,773	13,265,388
TOTAL ASSETS		26,414,270	22,370,637
EQUITY			
Share capital	<i>7</i>	6,450,000	6,450,000
Statutory reserve	<i>8</i>	2,150,000	2,150,000
Retained earnings		5,445,887	4,210,632
TOTAL EQUITY		14,045,887	12,810,632
NON-CURRENT LIABILITIES			
Employees' end of service benefits	<i>9</i>	310,642	322,374
Provision for site restoration and abandonment cost	<i>10</i>	207,678	189,854
TOTAL NON-CURRENT LIABILITIES		518,320	512,228
CURRENT LIABILITIES			
Accounts payable and accruals	<i>11</i>	8,169,566	6,971,752
Short-term loan	<i>12</i>	2,900,000	1,500,000
Income tax	<i>13</i>	457,891	336,297
Environmental provision	<i>14</i>	322,606	239,728
TOTAL CURRENT LIABILITIES		11,850,063	9,047,777
TOTAL EQUITY AND LIABILITIES		26,414,270	22,370,637
NET ASSETS PER SHARE		2.178	1.986

The notes on pages 31 to 42 form an integral part of these financial statements. These financial statements were approved and authorized for issue by the Board of Directors on 23rd January 2006 and signed on their behalf by:



Chairman



Managing Director

The report of the Auditors is set forth on page 26.

Income Statement

for the year ended 31 December

	<i>Notes</i>	2005 RO	2004 RO
Sales	<i>19</i>	90,242,729	70,781,948
Cost of sales		<u>(80,828,500)</u>	<u>(62,897,860)</u>
GROSS PROFIT		9,414,229	7,884,088
Marketing, distribution and administration expenses	<i>3, 14, 15 & 19</i>	(5,429,963)	(5,027,388)
Advertising expenses		(394,576)	(294,739)
Other operating income		<u>144,873</u>	<u>120,027</u>
PROFIT FROM OPERATIONS		3,734,563	2,681,988
Share of net profit from joint venture	<i>19</i>	27,526	-
Finance charges	<i>18</i>	(124,085)	(14,728)
Finance income	<i>18 & 19</i>	<u>53,776</u>	<u>4,276</u>
PROFIT BEFORE INCOME TAX		3,691,780	2,671,536
Income tax	<i>13</i>	<u>(469,615)</u>	<u>(343,618)</u>
NET PROFIT FOR THE YEAR		<u>3,222,165</u>	<u>2,327,918</u>
BASIC EARNINGS PER SHARE	<i>21</i>	<u>0.492</u>	<u>0.354</u>

The notes on pages 31 to 42 form an integral part of these financial statements.

The report of the Auditors is set forth on page 26.



Cash Flow Statement

for the year ended
31 December

	<i>Note</i>	2005 RO	2004 RO
OPERATING ACTIVITIES			
Profit before income taxes and after Directors' remuneration		3,639,870	2,626,536
Less: Share of net profit from Joint venture		<u>(27,526)</u>	-
		3,612,344	2,626,536
Adjustments for:			
Depreciation	<i>3</i>	1,216,980	947,262
Accrual for employees' end of service benefits		49,351	53,031
Loss on disposal of property, plant and equipment		41,393	106,671
Interest income		(53,776)	(4,276)
Interest expense		<u>124,085</u>	<u>14,728</u>
Operating profit before working capital changes:		4,990,377	3,743,952
Inventories	<i>5</i>	(593,415)	749,367
Receivables	<i>6</i>	(1,233,852)	(2,777,857)
Payables	<i>11</i>	<u>1,291,830</u>	<u>1,061,904</u>
Cash from operations		4,454,940	2,777,366
Interest paid		(124,085)	(14,728)
Employees' end of service benefits paid	<i>9</i>	(61,083)	(56,717)
Income tax paid	<i>13</i>	<u>(292,158)</u>	<u>(150,821)</u>
Net cash flow from operating activities		3,977,614	2,555,100
INVESTING ACTIVITIES			
Investment in joint venture	<i>4</i>	-	(20,000)
Purchase of property, plant and equipment	<i>3</i>	(1,951,703)	(3,139,770)
Proceeds from disposal of property, plant and equipment		71,431	8,378
Interest income		<u>53,776</u>	<u>4,276</u>
Net cash used in investing activities		(1,826,496)	(3,147,116)
FINANCING ACTIVITIES			
Dividends paid		(1,935,000)	(1,677,000)
Increase (Decrease) in short term loan		<u>1,400,000</u>	<u>(500,000)</u>
Net cash flow from financing activities		(535,000)	(2,177,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,616,118	(2,769,016)
Cash and cash equivalents at the beginning of the year		<u>684,572</u>	<u>3,453,588</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		2,300,690	684,572

The notes on pages 31 to 42 form an integral part of these financial statements.
The report of the Auditors is set forth on page 26.

Statement of changes in Equity

for the year ended
31 December

	Share capital RO	Statutory Reserve RO	Retained earnings RO	Total RO
1 January 2004	6,450,000	2,150,000	3,604,714	12,204,714
Dividends paid – 2003	-	-	(1,677,000)	(1,677,000)
Net profit for the year	-	-	2,327,918	2,327,918
Director's remuneration	-	-	(45,000)	(45,000)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2004	6,450,000	2,150,000	4,210,632	12,810,632
	<hr/>	<hr/>	<hr/>	<hr/>
1 January 2005	6,450,000	2,150,000	4,210,632	12,810,632
Dividends paid – 2004	-	-	(1,935,000)	(1,935,000)
Net profit for the year	-	-	3,222,165	3,222,165
Director's remuneration	-	-	(51,910)	(51,910)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2005	6,450,000	2,150,000	5,445,887	14,045,887
	<hr/>	<hr/>	<hr/>	<hr/>

The notes on pages 31 to 42 form an integral part of these financial statements.

The report of the Auditors is set forth on page 26.

Notes

(forming part of the financial statements)

1 Legal status and principal activities

Oman Oil Marketing Co. SAOG (“the Company”) is registered as a joint stock company under the Commercial Companies Law of Oman and is engaged in the marketing and distribution of petroleum products. The Company is a subsidiary of Oman Oil Company SAOC, a closed joint stock Company registered in the Sultanate of Oman. The Company has entered into a ‘Trademark License Agreement’ with Oman Oil Company SAOC dated 22nd September 2003, for the right to use the trademark ‘Oman Oil’, in exchange for an annual fee of 0.09% of all fuel sales.

2 Principal accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (“IASB”), the disclosure requirements of the Capital Market Authority and the requirements of the Commercial Companies Law of 1974, as amended.

Basis of preparation

The financial statements are presented in Rial Omani (“RO”). They are prepared on the historical cost basis. The accounting policies have been applied consistently by the Company to all periods presented in these financial statements.

The preparation of financial statements in conformity with IFRSs requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.

a) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized as an expense in the income statement.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of property, plant and equipment. Assets under construction are not depreciated. The estimated economic lives are as follows:

	Years
Buildings	10 to 20
Plant, equipment and vehicles	2 to 13

Depreciation is provided on a proportionate basis during the year of purchase.

Notes

(forming part of the financial statements)

2 Principal accounting policies (continued)

b) *Impairment*

The carrying amounts of the assets, other than inventories [refer accounting policy (c) below] and deferred tax asset [refer accounting policy (o) below], are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of the Company's receivables is calculated as the present value of expected future cash flows, discounted at the original interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risk specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses in respect of other assets are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

c) *Inventories*

Inventories are stated at the lower of cost and net realizable value. Costs are those expenses incurred in bringing each product to its present location and condition, as follows:

- Petroleum products and lubricants: purchase cost on a first-in-first out basis
- Stores : at weighted average cost

Net realizable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

d) *Trade and other receivables*

Trade and other receivables are stated at their amortised cost less impairment losses, if any.

e) *Cash and cash equivalents*

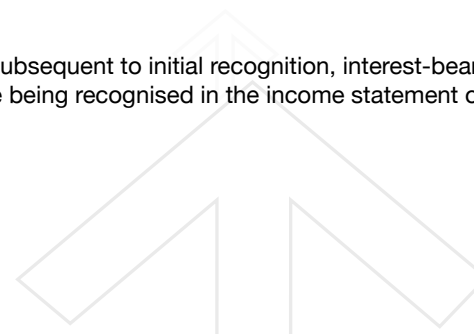
Cash and cash equivalents comprises cash and bank balances.

f) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

g) *Trade and other payable*

Trade and other payables are stated at amortised cost.



Notes

(forming part of the financial statements)

2 Principal accounting policies (continued)

h) Employee benefits

Contributions to a defined contribution retirement plan, for Omani employees in accordance with the Oman Social Insurance Scheme, are recognized as an expense in the income statement as incurred.

Provision for non-Omani employee terminal benefits, an unfunded defined benefit retirement plan, is made in accordance with Omani Labour Laws □

i) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

j) Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Environmental provision is recognised when environmental assessments are made and the associated costs can be reasonably estimated. Generally, the timing of the provision coincides with the commitment to a formal plan of action.

k) Foreign currencies

Transactions in foreign currencies are translated to RO at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RO at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

l) Revenue

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

m) Other income

Other income is recognized as it accrues.

n) Net financing costs / income

Net financing costs comprise interest payable on borrowings, calculated using the effective interest rate method, net of interest receivable on funds invested. Interest income is recognized in the income statement as it accrues, using the effective interest rate method.

Notes

(forming part of the financial statements)

2 Principal accounting policies (continued)

o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

p) Directors' remuneration

In accordance with the Commercial Companies Law of 1974, directors' remuneration is shown as an appropriation of retained earnings.

q) Joint venture

Joint venture: jointly controlled assets

Investment in jointly controlled assets is recognized only to the extent of the Company's share of assets, classified according to the nature of assets, liabilities which it has incurred, income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture.

Joint venture: jointly controlled entity

Investment in a jointly controlled entity is recognized using the equity method from the date the Company obtains joint control, at cost plus the Company's share of post acquisition retained results and other changes in net assets.

The Company discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity.

r) Dividends

Dividends are recognised as a liability in the period in which they are declared.

Notes

(forming part of the financial statements)

3 Property, plant and equipment

	Buildings RO	Plant, equipment and vehicles RO	Assets under construction RO	Total RO
Balance at 1 January 2005, net of accumulated depreciation	1,274,212	6,389,213	1,342,065	9,005,490
Additions	-	6,701	1,951,703	1,958,404
Transfers	811,165	1,634,364	(2,445,529)	-
Disposals	(17,706)	(95,133)	-	(112,839)
Depreciation for the year	(125,004)	(1,091,976)	-	(1,216,980)
Balance at 31 December 2005, net of accumulated depreciation	1,942,667	6,843,169	848,239	9,634,075
Property, plant and equipment:				
Cost	2,430,999	11,146,128	848,239	14,425,366
Accumulated depreciation	(488,332)	(4,302,959)	-	(4,791,291)
Net carrying amount	1,942,667	6,843,169	848,239	9,634,075

The plant and equipment and assets under construction at the main storage depot at Mina Al Fahal, with a carrying value of RO 1,092,678 (2004: RO 1,116,587) and RO 54,827 (2004: RO 10,786), respectively, are held jointly by the Company with a third party and cannot be sold without the mutual consent of both parties. The land on which the main storage depot and buildings are located, is leased from the Ministry of Oil and Gas jointly with the third party. The lease commenced on 23 November 1998 and expires on 22 November 2008.

4 Interest in Joint Venture

The Company has entered into a joint venture agreement with Al Sarooj Group LLC dated 10 June 2004 ("the Agreement"). Under the terms of the Agreement the Company has a 50% interest in a jointly controlled entity Oman Oil Marketing & Sarooj Group LLC ("the Joint Venture"), a limited liability company incorporated in the Sultanate of Oman with share capital of RO 40,000. The Joint Venture was registered on 10 August 2004. The Joint Venture's principal activity is to carry out commercial activities in the oil and gas sector outside the Sultanate of Oman.

The Company has provided a corporate guarantee to a bank on behalf of the Joint Venture (refer note 22).

The Company's share of assets and liabilities of the Joint Venture is as follows:

	2005 RO	2004 RO
Current assets	232,072	-
Non-current assets	4,626	-
Current liabilities	(189,172)	-
	47,526	-

Notes*(forming part of the financial statements)***5 Inventories**

	2005 RO	2004 RO
Oil and lubricants	2,091,453	1,494,460
Stores	19,856	23,434
	<u>2,111,309</u>	<u>1,517,894</u>

6 Accounts receivable and prepayments

	2005 RO	2004 RO
Trade receivables	11,811,651	10,604,774
<i>Less:</i> impairment provision	(575,183)	(300,262)
	<u>11,236,468</u>	<u>10,304,512</u>
Amounts due from related parties (note 19)	341,823	124,726
Other receivables	262,126	184,177
Prepaid expenses	456,357	449,507
	<u>12,296,774</u>	<u>11,062,922</u>

Changes to the level of impairment provision for trade accounts receivable during the year are as follows:

	2005 RO	2004 RO
Balance at 1 January	300,262	248,832
Provided during the year	297,549	66,000
Written off during the year	(22,628)	(14,570)
	<u>575,183</u>	<u>300,262</u>

The Company has accepted guarantees / collateral valued at RO 288,640 from customers to secure fully/ partly their dues to the Company. The receivable from one customer is secured by a mortgage over property.

Notes

(forming part of the financial statements)

7 Share Capital

The Company's authorized share capital consists of 15,000,000 shares of RO 1 each.

The Company's issued and fully paid up share capital comprises 6,450,000 shares of RO 1 each as follows:

	2005	2004
	Number of shares	Number of shares
322,500 Multi-vote shares of RO 1 each	322,500	322,500
6,127,500 Ordinary shares of RO 1 each	6,127,500	6,127,500
	<u>6,450,000</u>	<u>6,450,000</u>

In accordance with Article 5 of chapter two of the Company's Articles of Association, the holder of each multi-vote share is entitled to two votes at the annual general meeting of the Company.

Shareholders of the Company who own 10% or more of the Company's shares, whether in their name or through a nominee account, are as follows:

	2005	2004
	Number of shares	Number of shares
Oman Oil Company SAOC – Multi-vote shares	322,500	322,500
– Ordinary shares	2,838,000	2,838,000
	<u>3,160,500</u>	<u>3,160,500</u>

8 Legal reserve

As required by the Commercial Companies Law of the Sultanate of Oman, 10% of the profit of each year is transferred to a legal reserve until the reserve reaches a minimum one-third of the issued share capital. The Company has resolved to discontinue any further transfers to this reserve, as the reserve equals one-third of the issued share capital. This reserve is not available for distribution.

Notes

(forming part of the financial statements)

9 Employee's end of service benefits

	2005 RO	2004 RO
Movements in the liability recognised in the balance sheet are as follows:		
Accrual as at 1 January	322,374	326,060
Accrued during the year	49,351	53,031
End of service benefits paid	(61,083)	(56,717)
Accrual as at 31 December	<u>310,642</u>	<u>322,374</u>

10 Provision for site restoration and abandonment cost

Movements in the provisions are as follows:

	2005 RO	2004 RO
As at 1 January	189,854	-
Additional provision (net)	6,701	189,854
Unwind of discount	11,123	-
As at 31 December	<u>207,678</u>	<u>189,854</u>

11 Accounts payable and accruals

	2005 RO	2004 RO
Trade accounts payable	7,205,033	6,062,279
Accrued expenses	837,697	801,141
Directors' remuneration	51,910	45,000
Other payables	74,926	63,332
	<u>8,169,566</u>	<u>6,971,752</u>

Other payables include unclaimed dividend in the amount of RO nil (2004: RO 14,182). The Company in accordance with Capital Markets Authority (CMA) regulations transfers dividends unclaimed for a period of more than 6 months from the date they became due to the CMA's investor fund. Such unclaimed dividends transferred during the year amounted to RO 23,472 (2004: RO14,182). Eligible shareholders who have not received their dividends are entitled to claim them from CMA.

Notes

(forming part of the financial statements)

12 Short-term loan

The loan is repayable within one year of the balance sheet date. The loan is unsecured and carries interest at current market rates.

13 Income tax

	2005 RO	2004 RO
<i>Current liability:</i>		
Current year	417,000	219,840
Prior years	40,891	116,457
	<u>457,891</u>	<u>336,297</u>
<i>Income statement:</i>		
Current year	417,000	219,840
Reversal of excess tax provision relating to earlier years	(3,248)	-
Deferred tax asset relating to the origination and reversal of temporary differences	55,863	123,778
	<u>469,615</u>	<u>343,618</u>
<i>Deferred tax asset:</i>		
At 1 January	79,759	203,537
Movement for the year	(55,863)	(123,778)
At 31 December	<u>23,896</u>	<u>79,759</u>

The deferred tax asset comprises the following temporary differences:

Provisions and other charges	301,115	329,922
Net book value of fixed assets	(277,219)	(250,163)
	<u>23,896</u>	<u>79,759</u>

The Company is subject to income tax in accordance with the income tax law of the Sultanate of Oman at the enacted tax rate of 12% of taxable income in excess of RO 30,000. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. The reconciliation of tax as per accounting profit to effective tax is set out below:

Reconciliation of effective tax rate

	Rate %	2005 RO	Rate %	2004 RO
Profit before tax		3,691,780		2,671,536
Income tax	12	439,414	12	316,984
Effect of tax specific allowances	(0.29)	(10,465)	(0.20)	(5,400)
Effect of tax specific disallowances	1.11	40,666	1.21	32,032
Effective tax	12.72	<u>469,615</u>	12.86	<u>343,618</u>

The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

The income tax assessment of the Company for the years 2003 to 2004 has not been finalized with the Secretariat General of Taxation Affairs at the Ministry of Finance. The Management considers that additional tax liability, if any, in respect of open tax years would not be material to the financial position of the Company as at 31 December 2005. The deferred tax asset has been computed at the tax rate of 12%.

Notes

(forming part of the financial statements)

14 Environmental provision

	2005 RO	2004 RO
Balance as at 1 January	239,728	282,866
Provided during the year	120,160	-
Utilised	(37,282)	(43,138)
Balance as at 31 December	<u>322,606</u>	<u>239,728</u>

The Company provides for environmental remediation costs based on environmental contamination assessments made on its delivery and storage sites. The entire provision of RO 322,606 is expected to be used as per site specific remediation plans drawn up by the company with their environmental consultants.

15 Employee costs

	2005 RO	2004 RO
Wages and salaries	(755,564)	(744,322)
Other benefits	(802,098)	(870,021)
Contributions to a defined contribution retirement plan	(39,439)	(34,410)
Increase in liability for unfunded defined benefits retirement plan	(49,351)	(53,031)
	<u>(1,646,451)</u>	<u>(1,701,784)</u>

The Company employed 95 employees as of 31 December 2005 (31 December 2004: 89).

16 Expenditure commitments

Operating leases

The Company has entered into certain long-term non-cancellable operating leases. Under the terms of these leases the future rental payments are as follows:

	2005 RO	2004 RO
Future minimum lease payments:		
Not later than one year	373,607	339,187
Later than one year and not later than five years	733,430	898,951
More than five years	723,156	827,278
	<u>1,830,193</u>	<u>2,065,416</u>
<i>Capital Commitments</i>		
Contracted	<u>183,172</u>	<u>123,808</u>

17 Segmental information

The Company's operating revenues arise primarily from the marketing and distribution of petroleum products in the Sultanate of Oman.

Notes

(forming part of the financial statements)

18 Net finance (charges) income

	2005 RO	2004 RO
Interest expense	(124,085)	(14,728)
Interest income	53,776	4,276
Net finance (charges) income	<u>(70,309)</u>	<u>(10,452)</u>

19 Related party transactions

The Company has entered into transactions with entities over which certain Directors are able to exercise significant influence. In the normal course of business, the Company provides services on commercial terms to related parties and avails services from related parties. The Directors believe that the terms of providing and receiving such services are comparable with those that could be obtained from third parties.

The volume of significant related party transactions during the year and with parties with a shareholding of 10% or more in the Company and / or related to Directors, were as follows:

	2005 RO	2004 RO
Fuel sales to filling stations owned by Directors	2,897,875	2,750,008
Brand royalty	(78,461)	(36,085)
IT and other services from companies owned directly or indirectly by Directors	(69,684)	(89,360)
Remuneration to Directors	(51,910)	(45,000)
Director sitting fees	(18,400)	(17,700)
Net interest income	37,186	3,372
Fee for accounting services	2,000	-
Share of profits of Joint Venture	27,526	-
Investment in Joint Venture	-	20,000

Amounts due from related parties are disclosed in note 6. Bank balances in the amount of RO 588,410 (2004: RO 399,814) are with a related party bank.

During the year, one (2004: one) of the Company's directors was also an employee of the Company for the full year. In his capacity as an employee of the Company, he earned an aggregate of RO 115,182 (2004: RO 112,746) in salaries and benefits. This one (2004: one) director earned no additional remuneration in his separate capacity as a director.

20 Dividends paid and proposed

During the year, dividends of RO 0.300 per share totaling RO 1,935,000 relating to 2004 were declared and paid (2004- RO 0.260 per share totaling RO 1,677,000).

The Board of Directors has proposed a cash dividend of RO 0.450 per share for 2005, totaling RO 2,902,500 which is subject to the approval of the shareholders at the Annual General Meeting.

Notes

(forming part of the financial statements)

21 Basic earnings per share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2005 RO	2004 RO
Net profit for the year after deducting Directors' remuneration	3,170,255	2,282,918
Weighted average number of shares outstanding during the year	6,450,000	6,450,000
Earnings per share	0.492	0.354

22 Contingencies

At 31 December 2005 the Company had contingent liabilities in respect of guarantees and other matters arising in the ordinary course of business, from which it is anticipated that no material liabilities will arise, amounting to RO 842,354 (2004: RO 556,505).

The Company has also provided a Corporate guarantee of RO 500,000 (2004: RO nil), to secure a credit facility of RO 1 million for the joint venture (see note 4).

23 Financial instruments

Exposure to credit, interest rate and foreign currency risk arise in the normal course of the Company's business.

Interest rate risk

The Company manages its exposure to interest rate risk by ensuring that borrowings are on a contracted fixed rate basis.

Credit risk

The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

The Company sells its products to a large number of customers in Oman. Its 5 largest customers account for 32.1% of trade receivables at 31 December 2005 (2004: 44.4%).

Liquidity risk

The Company limits its liquidity risk by ensuring bank facilities are available. The Company's terms of sale require amounts to be paid within 60 days of the date of sale. Trade payables are normally settled within 45 days of the date of purchase.

Foreign currency risk

Foreign currency risk is minimal as most transactions are either denominated in RO, US Dollars or in currencies linked to US Dollars. The rate of exchange between RO and US Dollars has remained unchanged since January 1986.

Fair value

The Directors believe that the fair values of all financial assets and liabilities approximate to their carrying values due to their short-term maturities or demand nature.

24 New applicable International Financial Reporting Standards

IFRS 7 'Financial Instrument Disclosure' was issued by the IASB on 18 August 2005. IFRS 7 is effective for accounting periods beginning on or after 1 January 2007. Management believes that IFRS 7 will not significantly effect the operating results or financial position of the Company disclosed in future financial statements, as it concerns the form and content of disclosures relating to financial instruments.

25. Comparative figures

Prior year figures have been reclassified to confirm to the presentation adopted in these financial statements.