

## Management Analysis Report

### **Management Discussion and Analysis Report**

This report should be read in conjunction with the Directors Report as overlaps / repetitions have been avoided, to the extent possible.

#### **RETAIL**

The Retail Business Unit's network expansion and growth continued in 2009. Retail Business growth lead the Fuel Retailing Industry market growth despite the global economic recession which had certain impact on overall fuel sales performance in all regions.

For the year ended 31 December 2009, the Retail Business Unit contributed more than 69% of the Company's turnover which is the highest ever in the Company's history.

The main focus of 2010 will be on the continuous improvement of the retail plan and strategies to maintain and maximize potential returns of the Retail Business.

As for its network expansion in 2009, 6 new Filling Stations began operation, increasing the total of Service Stations nationwide to 113 after the closing of 3 filling stations by 31 December 2009 due to network rationalization. 4 more filling stations are also currently under construction and expected to open in Q1 of 2010.

Owing to the current economic outlook, the company's Management will be more prudent and rigorous in its growth and expansion strategy to protect and enhance the shareholders' values.

Retail's main focus will be on operational efficiency, conveniences and best in class customer service. Achieving customer satisfaction will be an integral part of strategy by ensuring all basic customer service needs are passionately addressed and delivered. Continuous upgrading of retail facilities forecourt staff training, HSE and service level will also be ensured. Engineering and maintenance capability have also been enhanced to ensure reliable and extended assets' life.

More strategic locations are being earmarked to complement our existing Retail network to add better conveniences to our Customers. The significance of its Non- Fuel business roles via openings of more shops, roll out of its C-stores' conversion into Ahlain, more and better service car washes, Quick Service Restaurants ("QSRs") and many more planned value added services is expected to continue its significant impact the overall performance of Retail business in 2010 and years to come. These value added offerings are also expected to attract more customers and improvise the Retail margin. **9** new stores, **5** new Car Wash and **2** QSR were opened in 2009

Omanoil's new brand C-Store under the name "ahlain" has been introduced and roll out since March 2009 as a carefully selected and crafted to bring in the young and energetic experience of Omanoil brand into the life and convenience of our customers. The roll out of the brand will continue in 2010.

Operational efficiency, conveniences and best in class customer service will remain the integral focus of the Company and to the future. Our journey into achieving total customers' satisfaction will continue by ensuring all the basic customer service and needs are passionately done. Continuous upgrading of retail and forecourt staff training, HSE and service level will also be ensured.

Engineering and maintenance capability have also been enhanced to ensure a prolonged and sustainable return from the assets.

Our Basma Rewards program's contribution to the Retail segment has also shown a better potentials that can be further tapped to help Retail's performance into 2010 and beyond. More collaboration with partners are being planned, more rewards and redemption are expected to be introduced to our loyal customers and more Merchants are also expected to join in and enjoy more benefits from the program.

The company is confident that its Retail's plans and strategies will bear fruits in the immediate future. The retail business continues to form the foundation of the Company and expected to continue the growth momentum.

## **Fuel Cards**

Despite the economic challenges, the Fuel card business has grown by more than 10% over the past year. The sale of Super grade fuel through fuel cards has also increased by 11% over the previous year whilst Diesel fuel had grown by more than 9%. The sales of Fuel through Basma Cards is now averaging around 2 million litres per month and the total fuel cards volume contribution now is exceeding 21% to the total Retail volume. This according to the Industry standards is the highest.

Despite the increase in sales, Debtors in both the Government and private sector were

brought down significantly by 13 %

2010 looks very encouraging with the Government announcing new projects Our primary focus will be to bring in new customers and at the same time maintain the existing customers. The aim will be to increase the Customer service to the next higher level

## **Commercial**

During 2009, our commercial market was the hardest hit due to the economic downturn with our Construction segment customers being the hardest hit. The Commercial Team's realignment of its focus and strategies into various other segments, prudent spending and fiscal policies by the Government, and the recovery of international oil price performance Oman Oil's commercial business have successfully captured a number of new projects during this Year and is poised itself to deliver a better performance in 2010 if the recovery trend continues.

Throughout the year, the focus was simple, spending more time with customers, developing relationships, delivering the product on time, and most importantly collecting money after the sales. All these measures helped deliver the said results and have also strengthened the business relationship with all our customers.

With the New Year 2010, there is a sense of caution and at the same time hope due to the ongoing global financial crisis. However we feel that the investment plan recently unveiled by the Omani Government and the assurance that nothing will change for the year will add to restore confidence and spur economic activities in Oman.

The Commercial Team's focus will remain on hunting new businesses, effective execution of customer service and improvement of the trust that was built up over the years with all customers.

## **AVIATION**

The global aviation industry is experiencing another difficult year with declining passenger and freight demands. Conserving cash, controlling costs and carefully matching capacity remain to be the airline companies' keys to survival . Airlines have cut down on unattractive destinations and are optimizing their resources on tested routes.

As a result of the cost optimization measures from the aviation customers, there were generally lower aviation fuels demand from the airlines. The Company's aviation sales was not growing as planned when most of the existing customers remained cautious in their fuel spending. Major airlines customers are still opting to uplift fuel from the neighboring hub airports before flying to their European destinations.

In 2009, omanoil successfully retained the Jet Airways fuel supply contract for a period of one year. The Company has also been successful in securing Gulf Air (100%), Air Arabia, Turkish Airlines, Thai Airways, Kuwait Airways, Jordanian Airlines, Saudi

Airlines, Tunis Air and Novel Air Tunisia during this financial year. This success augurs well with the company's vision of becoming the main service provider at the airport.

The company continues to take pride in serving RAFO (Seeb North and Musannah Airbase), Royal Oman Police and The Diwan of Royal court – Royal Flight Aircrafts. throughout the financial year.

omanoil is looking into its strategies and looking for ways to improve its operational efficiency and market share. The business unit is currently focusing on optimizing its asset and manpower in order to bring down its unit operating cost and will also continue to grow its market share by acquiring new airlines customers. .

In line with the government's vision to grow the country's tourism industry which will subsequently increase air travels, the future aviation fuel demand at the Muscat International Airport will further grow. Oman Air will continue to be the growth engine for the fuel demand in the country.

The Company will continue to work together with Air BP as technical and commercial partners in order to maintain our international service standards and capitalize their vast market access and networking to improve our sales volume.

## **Lubricants**

Economic recession had an impact on lubricant industry in 2009 with consumers opting for lower grade lubricants for servicing and extending service intervals.

The fake products of BP Visco 2000 also capitalized on the downturn and managed to take a sizeable volume of BP's lubricant market share. Franchisee workshops also extended their service intervals to reduce cost.

The launch of Castrol Magnetec was a big success as the synthetic oil is becoming more popular due to its quality and extended oil change interval.

The BP refresher program rolled out in the year end to celebrate 100 years of BP will have focus on communication campaigns on genuine BP Visco products

Despite all the adverse conditions we succeed in securing new businesses of Reliance rigs, Sea and land rigs Weatherford rigs, Komatsu Genuine Oil and Majan Mining.

It was good year for Oman oil's export lubricant business volume growth. Supply of Turbine and Transformer oil to Iraq was an achievement since Oman oil lubricant business is only 2 years old. Omanoil lubricants is now distributed in the Kuwait and UAE market and the acceptance and growth of Oman oil lubricant in these countries is promising. We are hopeful to have a more penetration in these markets in 2010.

Overall export lubes has grown by 40% against 2008

### **Customer Service Centre**

Omanoil understands that customers want to enjoy authentic and enriching experiences throughout its retail and commercial networks. The Customer Service Centre is thus committed to providing and maintaining those experiences.

Omanoil outstanding Customer Service Centre is a portfolio of services that includes Emtiyaz a new Call Centre which was re-launched in 2009 to provide with technical assistance, emergency service and customer complaint management - all developed to support the customer's needs by obtaining, directing and managing customer requests.

In 2009 we have managed to provide Customer Service training programs to our senior management, customer service agents, fillers and staff. And now, more than ever, our customer oriented vision and processes are at their top notch.

The company has always strived to create new systems and processes to maintain the superior quality of our customer services and a whole new *Standards and Guidelines* on Customer Services is in pipeline and will be launched in 2010. The emphasis on quality is designed to be customer friendly using the latest equipment and technology available in the industry today.

### **Health, Safety & Environment**

The Mina Al Fahal jointly owned terminal managed by Oman Oil Marketing Company has achieved yet another milestone of completing **6,348** days of safe operation without Lost Time Injury in handling the substantial increase in volumes seen by both companies Oman Oil & Al Maha operating within the terminal both safely and efficiently. This once again is indicative of the world class safe operation we have and one which is pivotal to the success of the business. JV Terminal has managed successfully to pumped out a total throughput of **1,830,355M3** safely.

The Company has initiated changes in its 'ways of safe working' for the logistics and terminal operations which are expected to significantly increase the utilization of the existing storage infrastructure and distribution fleet. This initiative is expected to contribute to reducing the distribution cost which is the single largest cost component after product cost whilst at the same time significantly reducing the need to invest in

storage & other infrastructure. Investments have also been made in improving the supply chain network to optimize utilization of our fleets.

2009 has been yet another successful year for the terminal and all efforts are being made to maintain its world class performance. Having 7 days a week, 24 hours terminal operations scheme which has substantially enhance the operating performance of meeting our daily throughput of 6000M3 / day.

2009 has been a challenging year with the ambitious growth plans for the company moving it to new heights.

Engineering department support in developments plans both in Retail as well as Commercial areas has resulted in significant expansion of our network of outlets and customer base. The department was actively involved in more than **25 Commercial projects and 6 Retail NTI Sites** which resulted in substantial increase in volume growth of more than **24 million liters** in 2009

Terminal has been vigilant to monitor and supervise all employees and contractors that, they strictly follows and adhere to a company HSSE regulation by communicating through Induction, Training, Group Meetings and Toolbox Talks.

With dedicated team of in house maintenance, JV terminal has achieved meeting its objective of maintaining entire operating equipments without any significant breakdown. As a result, JV terminal performance of twenty four – seven (24/7) had been very successful.

### **Corporate Social Responsibility**

Committed to responsible and ethical operations, Oman Oil Marketing Company continues to pioneer various social activities and initiatives in the Sultanate. In 2009 the company focused on the support of youth through sports and education by creatively collaborating with various local associations.

Oman Oil Marketing Company is the main sponsor and force behind the omanoil football school (OFS) founded in 2006. The school has since played an important part in training the youth of the nation. In 2009, with the collaboration of its partners Muscat Club and e-sports, omanoil led various activities and events for young football enthusiasts. Through additional initiatives such as the Indoor summer football tournament and Muscat Community Football League (MCFL), the company was able to further enhance and nurture the talents of today's generation.

Continuing its support of youth and sports, omanoil continued its partnership with the ministry of sports to fund and organize various events such as the summer of sports festival. .

An addition to sports, supporting education was an integral part of the company's corporate social responsibility strategy in 2009. The company supported various initiatives at the Sultan Qaboos University as well as various schools and colleges across the country.

## **PEOPLE**

The year has begun with a biggest challenge of obtaining operational excellence in human capital and acquiring new and best talent to the company. The recruitment and focus of identifying the right personnel of young and energetic Omani stems from the belief and pride of being 100% Omani Company, the pride of the Nation.

Oman Oil has progressed its Omanisation programme to 88% at the end of 2009. The Human Capital restructuring has been completed with notable Omanisation at the Senior management level.

Capability and leadership development continues to be the focus of our human capital investment to ensure the availability of a ready pool of highly capable and well-trained human resources within the organization to help achieve the Company's business targets.

The company continues to ensure that all staff receive the requisite training as it will ensure we maintain our skills levels and developing new capabilities, such as customer service management, which was the main theme for 2009 towards enabling Oman Oil Marketing to address customers expectations.

## **OUTLOOK 2010**

The outlook for the domestic petroleum products market is expected to remain favourable upbeat with demand expected to grow as the country's forecast another year of growth.

The retail sector will remain the back bone of the Company's and a major revenue contributor in the coming year.

At the same time, new constructions and upgrading of roads and highways will contribute to higher demand for diesel as well as new business opportunities in Marine sector.

Despite the favorable prospects, there will be numerous challenges that need to be faced. The continued uncertainty in the global economy, volatility in crude oil prices and the high cost of borrowings in Oman may weaken consumer demand. This would definitely affect the investment plan and profitability of the Company.

Competition will also persist as Oil Marketing Companies continue to widen their retail network, upgrade their existing facilities, introduce new products and embark on aggressive marketing and promotional campaigns. Customers are also expected to be selective in meeting their requirements. In this regard, the Company will continue to identify and build new stations at strategic locations and expand its current network of facilities.

With the available resources, capabilities and experience within the Company, we are well-poised to grow further and improve our operational efficiency. The focus in the coming year is to strengthen its market position further whilst achieving operational excellence.

We expect to continue to maintain our current sales growth, while delivering added value to our shareholders and customers as well as enhancing our position in market share across all classes of our business.

This concludes my review of operational performance for the year 2009.

With best wishes for 2010.

**Omar Ahmed Qatan**  
**Chief Executive Officer**