

Management Analysis Report 2014

Introduction

Having crossed our ten year mark, by the grace of god 2014 was an important time for us to reflect on our success and pave our way forward. With renewed enthusiasm, we will continue to grow and evolve to achieve yet another decade of excellence underpinned by an unwavering dedication to better serve this nation.

Looking towards a promising future, we are committed to reinforcing and contributing to Oman's economic and social advancement as we keep innovating, enriching and advancing all sectors of the industry. As always, we will align our ambitions with the country's developments, driving the progress of both Oman and omanoil in the years ahead.

1. Health, Safety, Security and Environment (HSSE)

As the nation's fuel and lubricants provider of choice, omanoil cares greatly for the people and the environment, and was recognized by Oman Green Awards for its environmental initiatives in 2014. The year also marked a record 22 years of safe operations without lost time injury at omanoil's Joint Venture Mina Al Fahal Distribution Terminal with Al Maha Petroleum. This pays testament to the company's safety measures that are not only vigilantly implemented but improved upon year-on-year. Promoting a culture of safety within the organization, omanoil adopted the theme of 'Safety is Everyone's Business' to further instill its HSSE concept amongst employees. Renowned for sustaining a zero harm work environment, the company leads by example in the country's oil and gas industry.

Our HSSE philosophy is adopted across our operations and is a combination of culture and practice. We strategically implement policies as well as audit our management system and develop performance review systems to identify areas for greater improvement. We also focus on raising awareness on the importance of road safety with our Defensive Driving training program that educates employees on IVMS and the Safe Journey Management System.

Going beyond our walls to reach our customers, we promoted safe behavior through Safety Awareness campaigns conducted at our filling stations. These campaigns enabled us to

communicate directly with our customers on safety habits that should be practiced while refueling.

We are proud of our HSSE achievements and thank our senior management, employees, contractors and customers for their unwavering support. With high ambitions, we plan to continue fostering a safe and secure working environment by thoroughly assessing our performance and developing innovative methods for improvement.

2. People

The omanoil brand, reputation and success are built on a foundation of personal and professional integrity.

With a dedicated workforce comprising of 238 highly qualified men and women, we reached an impressive Omanization rate of 85% in 2014. In order to continue raising our performance, we dedicate our efforts on developing the capacities of our human capital across our business by providing them with opportunities to further enhance their knowledge on sector-specific competencies in addition to a wide range of applied, scientific and creative skills.

Committed to encouraging both mental and physical wellbeing amongst our employees, we launched our third annual internal health campaign entitled 'I Promise'. Running throughout the month of Ramadhan, the program included fitness screens and body condition assessments to determine the most suitable exercise regimen for each employee. Personal development is as important as professional growth and this program aimed to guide employees on how to become better versions of themselves.

As a young and energetic Omani organization that prides itself on being a pioneer in the Sultanate's energy sector and partner in the development of its infrastructure, omanoil continuously seeks to bolster its existing workforce. A key factor of its long-term corporate objectives, the company recruits the right Omani talents to become the preferred employer of choice within the oil and gas sector.

3. Retail

The Retail unit, one of the core businesses of the company, exhibited vigorous growth in 2014. Throughout the year, omanoil's Retail network introduced 14 new filling stations, increasing the number to a total of 166. We also improved and optimized the network's existing stations,

reconstructing three stations with greater potential to contribute higher volume in the years ahead. In addition, we enriched our customer service at our forecourts by conducting training programs for the fillers. This boosted the team's competency, resulting in enhanced performance.

The Retail Department directly operates 64 filling stations that account for 38% of the current network, and the excellent operational management of these filling stations has resulted in outstanding customer care standards.

The Non Fuel Retail (NFR) is another important segment of the Retail business, with ahlain convenience stores as the main contributor. In 2014, Enhance and Khimji Ramdas were responsible for managing and operating 97 stores.

Based on our expertise in the Retail business, location is a key factor for success. Therefore despite regulation challenges, we secured a number of strategic sites across the country. Enhancing our services throughout the network, we added nine new sites and opened another two car care centers. omanoil's philosophy of total convenience and one-stop-shopping is represented by forecourts that feature onsite Ooredoo and Omantel facilities, ATMs and quick service restaurants including Spud, Shake U Like and Chicking, among many others.

4. Fuel Cards

Fuel Cards is another segment of our Retail Business we take great pride in, which managed to maintain its market leadership in 2014. The Fuel Cards business contribution to Retail sales is one of the highest in the industry.

Basma card's commendable growth is a major contributor to our bottom line in the Retail and Fuel Cards business, and has become one of the country's leading loyalty programs.

Our skilled and efficient Fuel Cards Operation Team improved our card-processing system, while the Department delivered remarkable achievements in 2014 including:

- Sustaining the incremental growth of Fuel Cards sales with remarkable customer service
- Accepting bank cards including Visa and Mastercard in the majority of omanoil outlets
- Launching the Basma Redemption campaign.

5. Commercial

Commercial business reported steady progress as our main focus was acquiring quality business with higher margins for our bottom line growth in 2014. The business successfully increased market share in key sectors due to the Government unveiling major projects. One such project was the investment in the Port of Duqm, where we have established a foothold having signed a land lease and bunkering license agreement with Port of Duqm Company. Serving this landmark project with complete and customized fuel package solutions, we are currently developing a bunkering terminal at the port and providing refueling services for ships. We are proud to be part of this project that will enhance Oman's competitiveness and realize a sustainable and future-ready nation.

We are optimistic in 2015 and poised for growth with the emerging market potential from new project announcements.

6. Aviation

The year 2014 saw resurgence from the Aviation Department in terms of overall performance. Our annual volume increased in comparison with the previous year. We also managed to secure the Oman Air contract for a period of two years while retaining the majority of our customers.

With more than 25 regular aviation clients, we refuel over 20,000 aircrafts per year, meeting customer requirements and complying with the highest HSSE standards.

Air BP continues to be our technical and commercial partner. This ensures that we uphold high international standards and capitalize on their vast market access in the aviation fuel sales.

7. Lubricants

Lubricants enjoyed a good year with mixed impact on the business as base oil prices showed a downward trend towards the later part of the year.

omanoil Lubricants

This was the first full year of omanoil's lubricants operations in Oman, and the acceptance of the products and their increasing sales trend month-on-month was highly encouraging. We celebrated the first anniversary since the lubricants launch in Oman with a promotion and van campaign which were well received by customers.

We increased our presence in three new countries including Jordan as part of our international expansion, and are now present across 15 countries with plans to expand into Saudi Arabia in 2015.

BP and Castrol

Despite challenging price discounting by competitors, we succeeded in increasing our market share in the synthetic segment, providing a strong foothold for the future. Castrol's international concept of independent workshops was introduced successfully in Oman as Castrol Auto Service (CAS) outlets. Currently, we have 10 CAS outlets across Oman.

In 2014, we were recognized by BP Middle East for excellence in sales growth in Franchisee Workshops. We also received a performance award from Castrol Energy for growth in the land based drilling segment.

8. Customer Care

We are a customer-centric organization and everything we do revolves around our customers and ensuring the best possible experience. Our aim is to continuously surpass expectations and lead by example to redefine standards in delivering consistently excellent customer service through the implementation of innovative methods. Throughout 2014, we launched a range of promotions to reward our loyal customers while attracting potential customers.

Keeping our promise of caring beyond fueling, our Executive Management team visited the Qurum Heights filling station and took up the role of fuel attendant in solidarity with employees. They also interacted with customers to gain insight into how we could be of better service to them.

In 2014, we re-launched our toll-free customer care number under the slogan 'We Care', to better cater to the needs of our customers with well-rounded, comprehensive services. Our customer care number was designed to open the dialogue between omanoil and customers for a first-hand understanding of their needs and concerns, enabling us to respond efficiently and dynamically to exceed their expectations. These posters were put up across all ahlain convenience stores for greater visibility. Re-launching and marketing our customer care toll free number contributed to an increase in the total number of calls we received from customers.

9. Operations

Operations plays a vital role at omanoil overall success. The Mina Al Fahal Terminal that is jointly owned by Al Maha Petroleum and managed by Oman Oil Marketing Company marked yet another successful year, and all efforts are being made to maintain its world class performance. Operating seven days a week and 24 hours a day substantially enhanced the operating performance of our daily throughput of almost 9,000M³ / day.

The JV Terminal managed successfully to pump the required volume safely. The Terminal team also expanded their retail loading capacity by 66% with the addition of two new loading bays to complement the existing three retail bays and two jet loading bays. This resulted in an increase in the number of loads per day and a significantly reduced tanker turnaround time which will cater to the increase in demand from both Al Maha Petroleum and Oman Oil Marketing Company. There were other maintenance activities and projects which were executed by the team in order to ensure that the Terminal's assets meet the integrity requirements and are safe to operate.

As a member of MAG (Mutual Aid Group), a group that includes all companies operating in Mina Al Fahal, the JV Terminal will continue to focus on HSSE and its obligation to fulfill the objectives set by the committee to address and close out all issues raised within the framework.

An ISO 9001- 2008 annual external auditing was successfully completed with no major non-conformance. This would not have been achieved without the guidance of our well trained, internal auditors and the commitment of all JV Terminal staff.

10. Business Development

Following the 2013 bunkering license and land lease agreement signed between Oman Oil Marketing Company and Port of Duqm Company (PDC) to develop a bunkering terminal and ancillary facilities at the Port of Duqm, development work is on track and the terminal concept design and front end engineering design were completed in 2014. The terminal will provide heavy fuel oil and marine diesel oil as well as marine lubricants to ships calling at the port and its surrounding waters. Bunker activities have commenced at Duqm, utilizing road truck deliveries in the interim, until such a time that the terminal is fully operational.

We are proud to have partnered with Port of Duqm Company to help develop our marine business at what is envisaged to be a future strategic bunker hub.

11. Information Technology (IT)

In 2014, we enhanced our IT infrastructure with a number of Human Resources applications now being implemented including Human Resource Application, Self Service as well as Absence Management and Payroll. We also successfully completed the Filling Station Automation (FSA) pilot project. Now in its evaluation stage, we envision the project to completely change the dynamics of Retail business once implemented.

SMS-based fuel ordering was introduced to ensure the ease of confirming orders for managers at our filling stations.

We plan even more improvements in the year 2015 to further automate omanoil's processes.

12. Social Responsibility

omanoil is an agent of change for the socio-economic development of the country. We aim to be a visionary corporate citizen and adopt values that are in line with the aspirations of our shareholders and Board of Directors towards achieving our Corporate Social Responsibility goals by pioneering various social initiatives throughout the Sultanate.

In 2014, we once again joined hands with the national movement to minimize road accidents by conducting road safety campaigns at a number of our filling stations to raise awareness on the importance of complying with safety regulations whilst driving. The company also participated in road safety exhibitions in Salalah to advocate best driving practices.

As always, we paid great attention to the environment and encouraged our employees to be the change we want to see happen. Recycling bins were placed throughout our offices for employees to dispose of paper waste in an eco-friendly manner. In addition, omanoil sponsored Oman Green Awards to encourage the development of innovative solutions that will preserve the country's natural resources for generations to come.

As part of our contribution to the country's social and economic development, omanoil organized volunteer initiatives such as the blood donation drive that was designed to give back to the community. Further extending our support to enhance people's quality of life, we contributed to non-profit organizations including Omani Bahjah Orphan Society. We are proud of our staff who embody our philosophy of social integration with commitment and dedication.

Moreover, the majority of omanoil's procurements were directed to local Small and Medium Enterprises to augment community welfare and contribute to the development of Oman's national economy.

13. Outlook

Looking ahead for the future, omanoil is very optimistic, especially 2015. The plans announced by the Government as well as the country's focus on infrastructure spending will drive Oman to even greater heights as well as ensure the demand for fuel is sustained , specifically diesel in the commercial sector.

As the backbone of the company's operations, Retail will continue to propel omanoil's growth. Our strategy is to increase our presence throughout the Sultanate with strategically-located sites to serve the rising population and subsequent energy consumption.

Despite favorable prospects, omanoil expects competition across all business sectors to continue. In anticipation of the challenges ahead, the company will remain focused on expanding its network, improving the quality of its products and services, optimizing costs and developing its human capital even further. omanoil will also continue to play its part in contributing to the development of the oil and gas industry.

Our focus in 2015 will be to strengthen our market position whilst maintaining operational excellence and adding value to all our stakeholders by keeping our promise to "Care beyond Fueling".

This concludes my review of the company's operational performance for the year 2014.



Engr. Omar Ahmad Salim Qatan
Chief Executive Officer