

## Chairman's Report

Dear Shareholder

It gives me great pleasure to report on behalf of the Board of Directors on a fine performance for Oman Oil Marketing Co SAOG for the year 2003. In this fifth year of operation as a public company the profit before tax results were inline with our forecast and the after tax results have been significantly increased with a tax provision write back being enjoyed. Even more pleasing is that this performance has been achieved in an increasingly competitive market and while we were going through the process of separating our operations from BP.

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

### **Operating environment**

It was with a deep sense of pride that we opened our very first Omanoil site this year which was quickly followed up with another three by year end. The new logo and design has been very well received by the motoring public and has provided us with a new fresh look to take into the future.

The market continues to be competitive with the number of new retail sites constructed by the industry exceeding the market growth, the effect of this is that volumes per site have declined and the viability of a number of sites is in question. Margins have remained the same and therefore cost containment and operating efficiencies have had to be actively addressed. The issue of margins will need to be addressed as the number of new sites in certain areas increases and dealers find themselves facing financial hardship.

The commercial sector has performed well, having retained a large portion of the tendered business. This is especially rewarding given that the power station volumes have all but disappeared. Margins in this sector continue to be eroded with high levels of discounting being seen.

The Aviation business failed to meet both its volume and contribution targets due to a reduction in regional airlines uplifts out of Seeb. This position was further compounded by the non competitive pricing of aviation products in the Sultanate. I am pleased to report that the issue around pricing has been addressed by all relevant parties and it is hoped that Oman will become an attractive location for Regional Airlines refueling. We were successful in winning the RAFO supply contract this year, the volumes from which will partially compensate for the reduction out of Seeb.

The lubricants sector achieved good results with increased volumes this year despite stiff opposition and rising base oil prices. The continued marketing of both BP and Castrol into the future will have a positive impact on the business.

Given the overall reduction in volumes and corresponding contribution, the focus on operational efficiencies together with cost containment has ensured that this year has been a success. It is worth again noting that this performance was achieved while the Company was going through the major effort of re-branding and the transition from BP.

### **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.

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.

It was necessary during the year to change the name of the company as well the "Articles of Association" and the "Internal Regulations" in line with the new law and I am pleased to report that once again these were carried out efficiently and professionally.

There is a very strong governance culture within your company with transparency and openness ensuring that all stakeholders' interests are

protected. We will continue, as in the past to ensure a strict adherence to governance requirements as raised by the CMA with whom we have developed a good working relationship

## **Financial Results**

Once again I am pleased to announce a particularly pleasing financial performance for the year 2003. Given that turnover is down by around RO 7 million the pre tax profit figure is RO 2.2 million and after tax of RO 2.6 million. This positive profit after tax performance has been brought about by a write back of tax provision of prior years on completion of tax assessments up to 1999. The balance sheet remains strong with debtors and cash management receiving added attention that resulted in debtors reducing by close to RO 1.0 million. The continuing focus on business improvements and new opportunities has led to aggressive capex spend of RO 1.7 million thereby increasing the asset base. This has resulted in a net asset value per share increase to RO 1.893 from RO 1.737 the previous year.

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

## **Dividend**

Your Board of Directors has recommended a cash dividend to shareholders of 260 Baisas per share that represents a payout of 26% (2002 -25%) of the ordinary paid up share capital. The recommendation is in line with your Board's policy of maintaining a consistent dividend policy.

## **Health, Safety and Environment**

As in all world class companies the focus on Health Safety and Environmental issues continues to receive significant attention with once again very good results.

There were no injuries to staff, serious accidents or damage to property during the year. The joint terminal which is operated by ourselves has now achieved 11 years without any injuries or reportable incidents. This performance places the terminal amongst the best run terminals in the world.

Environmental issues continue to receive attention particularly in areas of ground pollution and it is pleasing to see that constant liaison and discussion with the Ministry of Rural Municipalities and Environment and Water resources staff have ensured a clear understanding of the issues facing all parties.

In conclusion your board is fully committed to the HSE culture within the company and all measures possible are being taken to ensure the highest standards are maintained.

## **People**

The levels of performance seen this year have been exceptional given the pressures placed on all staff to perform.

Staff have been asked to undergo a fundamental change in their thinking due to the withdrawal of the embedded BP systems and support structure. The de-linking of the Company was handled internally, with the process completed in 16 months compared to the 18 months planned. In addition they have had to deal with the introduction of a new image as well as name and a new set of values consistent with a new company, all of this has been achieved whilst continuing to produce a fine financial performance.

The Omanisation of the company continues together with the active recruitment of high caliber young staff in to the company. I am pleased to say that our level of Omanisation is now at 74% and the composition of the management team has changed with the first Omani Operations Manager being appointed this year together with the return of another of our senior staff from BP.

The strength of any company lies in its people and I am pleased to say that with Oman Oil Marketing Companies staff we have a group whose dedication and enthusiasm will ensure the continued good performance of the Company. The excellent financial, operational and safety performance this year is directly attributed to our staff and on behalf of the Board of

Directors, I would like to thank all members of the team who have contributed to this year's performance.

### **The Future**

Your Company is well placed to continue its high level of performance, both operationally and financially. The transition from BP has been extremely challenging, but the re-branding has created a new sense of excitement within the Company and we believe within our customer base. In 2004 we will continue this momentum through the completion of the re-branding process and the opening of new retail stations. We also hope to capitalize on the awareness of the Company that the re-branding has created to attract new customers in all lines of our business. Additionally in 2004, we expect to realize some of the cash cost savings associated with the separation from BP and the entering into of new agreements with BP for aviation and lubes.

However, the long term profitability of the Company in its current business activities can only be achieved through the continued efforts to find more efficient ways to conduct our business activities and through the profitable expansion of our current businesses. The Oman downstream market is and is expected to remain extremely challenging, with stiff competition and low margins. Initiatives like the fuel card link with Emirates General Petroleum Corporation (Emarat) of the UAE that make it easier for our customers to use our retail stations, are the sort of innovative programs that we must continue to pursue to give us an edge in the market. Further, although we will continue to expand our retail network to capture the market growth and changing demographics, we will be focusing on locations that will provide profitable growth for us and our dealers, not just volume increases.

We also believe there are opportunities for the Company to expand into related business activities inside Oman and to look for opportunities in our core business outside Oman. I can safely say that we have already reviewed several opportunities for growth that in the past could not be considered because of the ownership structure of the Company. However, expanding into new areas is not easy, and finding the right type of opportunities is critical. We will continue to screen and evaluate potential opportunities that we believe fit with the competencies of the Company

and are confident that attractive investment opportunities will ultimately be found. However, as with growth in our current businesses, the key is to find opportunities to expand profitably.

Lastly, I am happy to report that Mr. Mike Wilson has elected to stay on as Managing Director of Oman Oil Marketing Company. Given the many changes that have taken place in 2003, the Board thought it was important to have continuity of the top Management level. We are extremely pleased with the job Mike has been doing and believe he is the right person to lead us into the future.

I would also like to take this opportunity to thank our many customers for their continued support and would like to reiterate our unwavering commitment to the provision of the highest level of service at all times.

Finally, 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 2004.

**David Douglas**  
**Chairman**