

Management Discussion & Analysis Report

2004 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 establishing a new image and maintaining our market position was most encouraging.

All sectors recorded increased volume growth (overall increase of 15.9%), which did not in all cases translate into increased margins due to increased competition and the need to reduce margins accordingly. As always, cost containment was constantly monitored but I am pleased to see that top line growth was achieved in all areas.

Financial performance

Turnover increased 20.7% compared to 2003 due to increased volumes and higher sale prices (in aviation where pricing is linked to global crude prices) and this, combined with cost containment, realised a before tax performance exceeding 2003.

Despite a significant increase in depreciation charge arising out of the re-branding of the company, the profit before tax (PBT) for 2004 is RO 2.7 million compared to RO 2.2 million for 2003. As can be seen this is a significant improvement on 2003 (18.2% increase) and one which we believe is sustainable in the

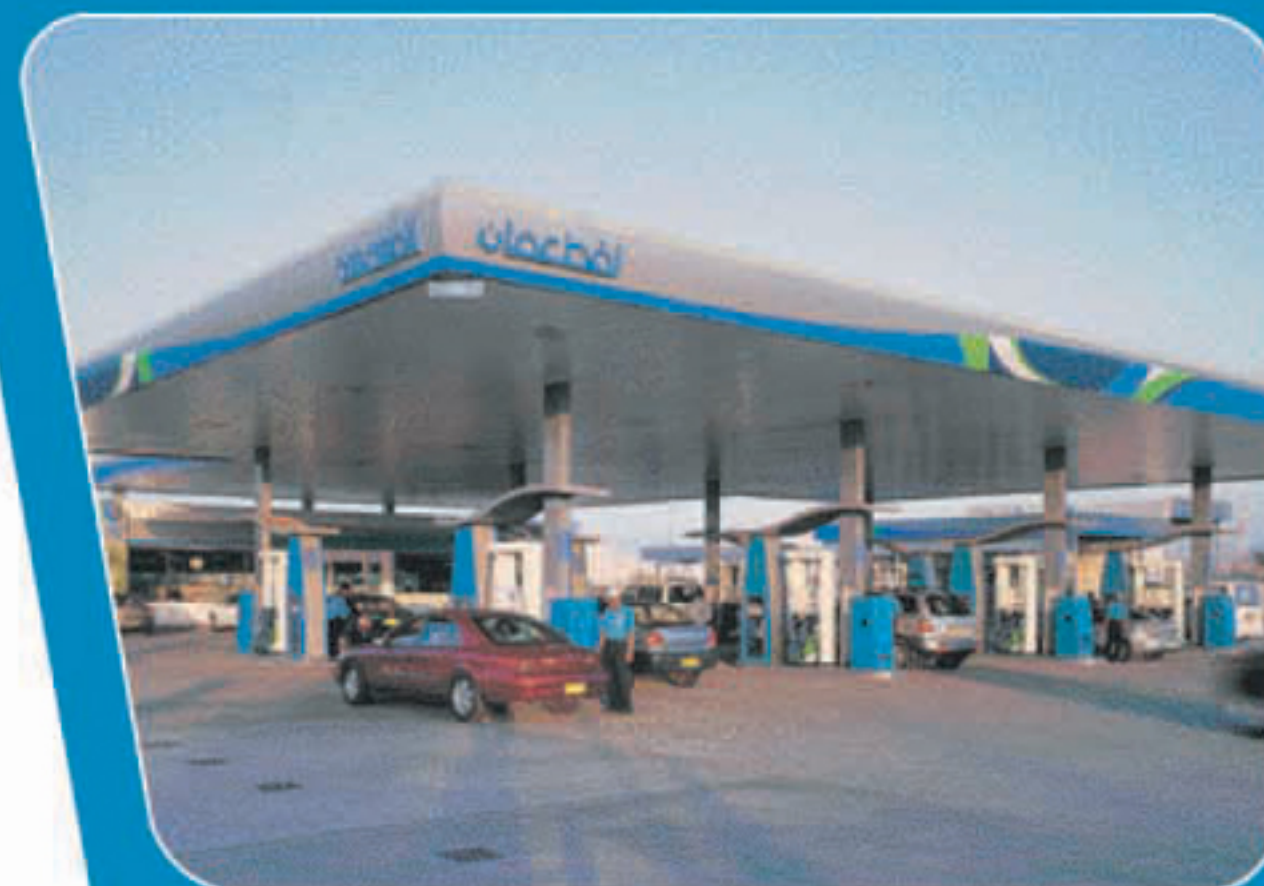
future. However, despite the higher PBT in 2004, the profit after tax (PAT) was 12.6% lower at RO 2.3 million compared to RO 2.6 million in 2003. This is due to one off credits in 2003 on account of write back of tax provision of earlier years and deferred tax. This performance exceeds our original target, which itself was stretching given the decline in volumes in particularly aviation and power stations, and in light of this it is believed that this was a good performance.

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

2004 has been very successful with the re-imaging of the remaining 54 sites, completed in the first 4 months of the year, in addition to the construction of 5 new sites and 8 new shops in 2004. This apart, 5 sites were razed and rebuilt during the year. This level of activity is the highest it has been in a number of years. A major thrust in our "smart card

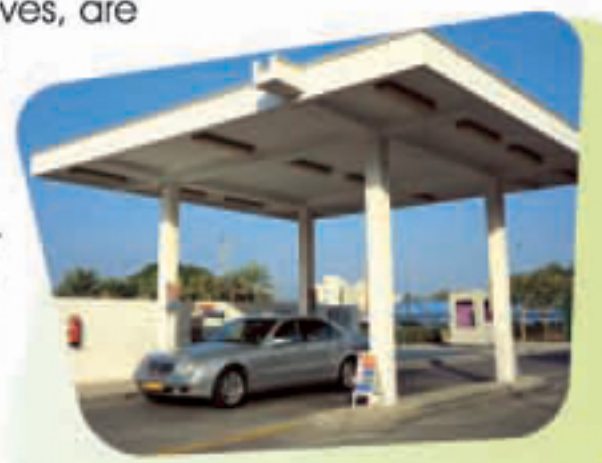




business" (Ejaba and Wayak), increased diesel sales due to the disparity in prices with the UAE (and the resultant volume flow out of the Sultanate) and an emphasis on the offer being made to our customers ensured a good performance this year.

The decision by the Ministry of Commerce and Industry to address the whole issue around permit allocations and the imbalances existing in allocations is to be applauded as it is this area that will have the most impact on our developing strategic sites now and into the future.

The "Quick shop" concept is gaining momentum with the construction of 8 new shops this year and a number being planned for 2005. The shops, in themselves, are not material contributors to our performance but they are part of the retail offer and will be receiving added attention in 2005.



The major success in 2004 has been our "smart card business" which has seen a material increase in volumes together with state of the art features constantly being developed. We see this area of the business as the future for fuels retailing and one which we will need to concentrate on going forward.

We believe that the new builds in 2004 coupled with the permits we have for 2005 will ensure a strong performance into the future.

Bulk Fuels

2004 was a very successful year for the commercial sector of the business. In terms of volume the base business grew by an unheralded 51% whilst the power station business continued to contract as anticipated. The massive growth in volume can be attributed to a dramatic increase in marine diesel which is not sustainable given its pricing in relation to neighbouring countries.

It has been very pleasing to see that penetration has taken place in all sectors of the economy in what is becoming a very low margin sector characterized by fierce competition and increased debtors exposure, it is however an integral part of the business and one in which we continue to establish strong relationships throughout the country for the future.

Aviation

Volumes in this sector increased by 24% over last year. Part of this was due to the supply of fuel to Royal Air Force Oman (RAFO), which was won by tender in 2004 together with some large "ad hoc" business being enjoyed.

The largest development in this sector is the introduction of a Platt's based pricing formula, which now places Oman at the same level as other Gulf countries. Initial indications have

shown a slight increase in uplifts at Seeb airport, which hopefully bodes well for the future.

The dramatic increase in world crude prices has had an effect on the price of aviation fuels which whilst inflating turnover has reduced the margin in percentage terms as it is fixed in baidas per litre. It will be necessary to revisit this issue with the relevant authorities in the new year.

The erosion of margins in the aviation sector needs to ensure constant cost monitoring and it is felt that thought needs to be given to rationalising the utilisation of all assets at Seeb airport in order to achieve the healthy returns needed to sustain this important sector.

The operational and marketing agreements entered into with Air BP have worked well in their first year of operation and it is believed that this model will ensure a strong and competitive position in the market.

Lubricants

The Lubricants business enjoyed their most successful year to date with both volumes and contributions increasing in excess of 7%. This performance was achieved in an environment of increased supply costs due to increasing base oil prices and new entrants into the market.

Agreement has been reached with BP to market both BP and Castrol lubricants under an

agency arrangement. This arrangement will ensure that we maintain our dominant position in the market together with being involved with the latest lubricant technology in the world.

All in all a very satisfactory year for lubricants and one which should see further penetration in the market in 2005.

Storage and Distribution

The Mina Al Fahal managed terminal achieved yet another milestone in reaching 12 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 facility.

Major capital works have continued in 2004 in the areas of fire fighting and surrounds all of which are designed to maintain the integrity and efficiency of the terminal.

As always monitoring of costs is being addressed and one measure to reduce costs has been the "outsourcing" of our vehicle maintenance; initial indications are encouraging.

2004 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's focus on Health, Security, Safety and Environmental awareness continues to go from strength to strength.

Regrettably one of our vehicle contractors had a serious accident resulting in the loss of a trailer but thankfully there were no injuries to people and very little damage to the environment, which we were able to address effectively.

A number of working groups and departmental leaders have been operating this year together with our "Near Miss" and "Advanced safety audit" programmes and I am pleased to say that they have all performed extremely well with the aim of creating an awareness of safety and environmental issues both at work and at home.

We have this year carried out a number of environmental initiatives around ground water and air pollution at both 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

There have been no issues during 2004 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

- Hearing aids for children
- Cancer awareness
- Beach cleaning
- Teacher drama workshops
- Various sporting events

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



People

Our staff have yet again in an ever changing environment risen to the occasion in 2004 and produced the level of results we have seen this year. I would like to thank them for all their hard work and dedication to the success of the company.

The issue of our people development has featured high on management's agenda this

year. Processes to identify and develop likely leaders of tomorrow given our existing age and cultural mix have been rigorously discussed and documented; we believe that this will form the foundation of the company's staffing going forward.



Discussions have been held with the Ministry of Manpower regarding development of young national talent & the localisation program and these have been agreed with them over the next 3 years. We can assure all stakeholders that the transition of the company will be done in a manner which will have minimal impact on the business whilst meeting both the Government's and affected staff aspirations.

We continue to ensure that our staff receive 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 4 days per employee in 2004.

Internal controls

The control environment within the company continued to be monitored by Moore Stephens, our internal auditors. Throughout the year a

number of issues were raised and all were addressed, there were no serious breaches of controls reported during the period.

The Audit committee is to be congratulated on their performance this year given that this was a period of change and therefore vigilance and guidance was necessary. It is pleasing to see that the internal auditors have embarked on a new format for their audits which aims to add value to the various processes as opposed to the current system of identifying non conformance to agreed procedures.

In terms of the requirements of the Code of Corporate Governance, Ernst & Young, our statutory auditors till last year, were required to step down as auditors and KPMG have been appointed in their place for the year 2004 onwards.

Outlook

2005 has the potential to be a watershed year for the company given the number of new sites which should come on stream together with current initiatives which are being explored outside Oman. In all cases the market will determine our performance but I am confident that we are in a strong position for growth and should various initiatives, both internally and externally, come to fruition, 2005 will be very successful.

Michael G Wilson
Managing Director

