NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2003

1 ACTIVITIES

Oman Oil Marketing Co. SAOG (formerly known as BP Oman SAOG) 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. During the year the company changed its name from BP Oman SAOG to Oman Oil Marketing Co. SAOG. The company is a subsidiary of Oman Oil Company SAOC and its registered address is PO Box 92, Mina al Fahal, Postal Code 116, Sultanate of Oman.

The company operates in the Sultanate of Oman and employed 88 employees as of 31 December 2003 (31 December 2002 - 99).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The financial statements have been prepared in accordance with Standards issued, or adopted by the International Accounting Standards Board, and interpretations issued by the International Financial Reporting Interpretations Committee, and applicable requirements of the Commercial Companies Law and the Capital Market Authority of the Sultanate of Oman.

The financial statements have been presented in Rial Omani.

Accounting convention
The financial statements are prepared under the historical cost convention.

The accounting policies are consistent with those used in the previous year.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives of assets as follows:

Buildings	over 10 to 20 years
Plant, equipment and vehicles	over 2 to 13 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the income statement.

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

- Oil and lubricants - purchase cost on a first in, first out basis
- Stores - at weighted average cost

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

Accounts receivable
Accounts receivable are stated at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions
Provisions are recognised when the company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

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.

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 recognised as an expense in the income statement on a straight-line basis over the lease term.

Taxation
Taxation is provided for in accordance with Omani fiscal regulations.

Deferred income taxation is provided using the liability method on all temporary differences at the balance sheet date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Employees' end of service benefits
The company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the company makes contributions to the Omani Government Social Security Scheme under Royal Decree No. 72/91 for Omani employees calculated as a percentage of the employees' salaries. The company's obligations are limited to these contributions, which are expensed when due.

Revenue recognition
Sales are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Interest revenue is recognised as the interest accrues.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Fair values
The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

3 PROPERTY, PLANT AND EQUIPMENT

	Buildings *RO*	*Plant, equipment and vehicles* *RO*	*Assets under construction* *RO*	*Total* *RO*
Balance at 1 January 2003, net of accumulated depreciation	687,059	4,435,562	929,489	6,052,110
Additions	-	-	1,712,336	1,712,336
Transfers	64,055	872,117	(936,172)	-
Disposals	(10,474)	(96,599)	-	(107,073)
Impairment	(25,946)	(127,875)	-	(153,821)
Depreciation for the year	(60,234)	(705,141)	-	(765,375)
Balance at 31 December 2003, net of accumulated depreciation	**654,460**	**4,378,064**	**1,705,653**	**6,738,177**
Property, plant and equipment				
Cost	955,928	7,251,824	1,705,653	9,913,405
Accumulated depreciation	(301,468)	(2,873,760)	-	(3,175,228)
Net carrying amount	**654,460**	**4,378,064**	**1,705,653**	**6,738,177**

The majority of the company's inventories are stored at its main storage depot at Mina Al Fahal. The plant and equipment at this depot with a carrying value of RO 1,178,484 (2002 - RO 1,257,365) 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 INVENTORIES

	2003 ***RO***	*2002* *RO*
Oil and lubricants	**2,239,705**	2,001,053
Stores	**27,556**	45,072
	2,267,261	2,046,125

5 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2003	*2002*
	RO	*RO*
Trade accounts receivable	**7,876,098**	9,126,629
Less: impairment provision	**(248,832)**	(240,981)
	7,627,266	8,885,648
Amounts due from related parties (note 17)	**169,463**	41,502
Other receivables	**85,031**	63,111
Prepaid expenses	**403,305**	314,531
	8,285,065	9,304,792

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

	2003	*2002*
	RO	*RO*
Balance at 1 January	**240,981**	395,665
Provided during the year	**16,136**	80,073
Written off during the year	**(8,285)**	(234,757)
Balance at 31 December	**248,832**	240,981

6 CASH AND CASH EQUIVALENTS

Included in bank balances and cash is a bank deposit of RO 2,500,000 (2002 – Nil) with a commercial bank in Oman. This denominated in Rial Omani, is short term in nature, with an effective interest rate of 1.4%.

7 SHARE CAPITAL

	Authorised	*Authorised*	***Issued and fully paid***	*Issued and fully paid*
	2003	*2002*	***2003***	*2002*
	RO	*RO*	***RO***	*RO*
Shares of RO 1 each	**15,000,000**	15,000,000	**6,450,000**	6,450,000

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

	2003	*2002*
	RO	*RO*
Oman Oil Company SAOC	**3,160,500**	3,160,500

8 STATUTORY RESERVE

As required by the commercial company's law of the Sultanate of Oman, 10% of the profit of each year should be transferred to statutory reserve until the reserve has reached 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. The reserve is not available for distribution.

9 EMPLOYEES' END OF SERVICE BENEFITS

	2003	*2002*
	RO	*RO*
Movements in the liability recognised in the balance sheet are as follows:		
Accrual as at 1 January	**352,627**	364,290
Accrual during the year	**32,136**	53,747
End of service benefits paid	**(58,703)**	(65,410)
Accrual as at 31 December	**326,060**	352,627

10 ACCOUNTS PAYABLE AND ACCRUALS

	2003	*2002*
	RO	*RO*
Trade accounts payable	**4,780,515**	4,339,191
Accrued expenses	**999,965**	933,260
Directors' remuneration	**40,000**	40,000
Other payables	**46,230**	43,633
	5,866,710	5,356,084

11 SHORT TERM LOAN

The loan is repayable within one year of the balance sheet date. The loan is unsecured and carries interest at an effective annual rate of 0.7%

12 TAXATION

	2003	*2002*
	RO	*RO*
Current liability:		
Current year	**170,000**	269,677
Prior years	**97,278**	424,834
	267,278	694,511
Income statement:		
Current year	**170,000**	269,677
Reversal of excess tax provision relating to earlier years	**(413,753)**	-
Deferred tax asset relating to the origination and reversal of temporary differences	**(203,537)**	-
	(447,290)	269,677
Deferred tax asset:		
At 1 January	**-**	**-**
Movement for the year	**203,537**	**-**
At 31 December	**203,537**	**-**

The deferred tax asset comprises the following temporary differences:

Provisions and other charges	**409,895**	-
Net book value of fixed assets	**(206,358)**	-
	203,537	-

The tax rate applicable to the company is 12% (2002 - 12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 7.85% (2002 - 11%).

The difference between the applicable tax rate 12% (2002 - 12%) and the effective tax rate of 7.85% (2002 - 11%) arises due to the tax effect of income not considered to be taxable and expenses that are not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

The company's tax assessments up to tax year 1999 has been agreed with the tax authorities.

The deferred tax asset has been computed at the tax rate of 12%.

13 ENVIRONMENTAL PROVISION

	2003 RO	2002 RO
Balance as at 1 January	**312,956**	296,391
Provided during the year	**-**	38,506
Utilised	**(30,090)**	(21,941)
Balance as at 31 December	**282,866**	312,956

The company provides for environmental costs based on environmental contamination assessments made on its delivery and storage sites. The entire provision of RO 282,866 is expected to be used during the next financial year.

14 EXPENDITURE COMMITMENTS

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:

	2003 RO	2002 RO
Future minimum lease payments:		
Not later than one year	**117,938**	113,931
Later than one year and not later than five years	**96,186**	74,796
Total operating lease expenditure contracted for at the balance sheet date	**214,124**	188,727

15 SEGMENTAL INFORMATION

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

16 FINANCE INCOME (NET)

	2003 RO	2002 RO
Short term loan interest expense	**(9,491)**	(34,913)
Bank interest expense	**(204)**	(1,208)
Total finance cost incurred	**(9,695)**	(36,121)
Bank interest income	**1,820**	5,917
Other interest income	**27,422**	87,214
Total finance income earned	**29,242**	93,131
Finance income (net)	**19,547**	57,010

17 RELATED PARTY TRANSACTIONS

These represent transactions with related parties as set out in accordance with International Accounting Standard 24, related party disclosures. Pricing policies and terms of these transactions are approved by the Board of Directors.

Transactions with related parties, or holders of 10% or more of the company's shares or their family members, included in the statement of income are as follows:

	2003 RO	*2002 RO*
Purchases from BP Middle East	**1,834,552**	1,628,067
Service fees paid to BP Middle East	**469,406**	524,624
Service fees received from BP Global Investment Salalah & Co.LLC	**29,000**	29,000
Sale of equipment to Air BP	**48,063**	-

Amounts due from related parties are disclosed in note 5.

18 DIVIDENDS PAID AND PROPOSED

During the year, dividends of RO 0.250 per share totalling RO 1,612,500 relating to 2002 were declared and paid (2002- RO 0. 250 per share totalling RO 1,612,500).

The Board of Directors has proposed a cash dividend of RO 0.260 per share totalling RO 1,677,000, which is subject to the approval of the shareholders at the Annual General Meeting.

19 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:

	2003 RO	*2002 RO*
Net profit for the year	**2,611,818**	2,183,971
Weighted average number of shares outstanding during the year	**6,450,000**	6,450,000
Earnings per share	**0.405**	0.338

No figure for diluted earnings per share has been presented because the company has issued no ordinary shares that may be dilutive.

20 CONTINGENCIES

Contingent liabilities
At 31 December 2003 the company had contingent liabilities in respect of bank and other 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 1,162,233 (2002- RO 2,752,096).

21 RISK MANAGEMENT

Interest rate risk
The company is exposed to interest rate risk on its interest bearing liabilities (short term loan).

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 41% of outstanding accounts receivable at 31 December 2003 (2002 – 44.44%).

Liquidity risk
The company limits its liquidity risk by ensuring bank facilities are available. The company's terms of sales 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.

22 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and liabilities.

Financial assets consist of cash and bank balances and receivables. Financial liabilities consist of payables, short term loan and accrued expenses.

The fair values of the financial assets and liabilities are not materially different from their carrying values.