Directors' Report

Dear Shareholder,

I have the pleasure, on behalf of your Board of Directors', to present to you the Directors' Annual Report of your Company for the fiscal year 2006. This report should be read together with the financial statements, Corporate Governance Report and Management Discussion and Analysis report as an attempt has been made to avoid duplication and overlap by not covering the sections already covered there in detail, except where considered necessary.

Business/ Operating Environment

Global : On the global front, despite high commodity prices, rising short-term interest rates, and a bout of financial market volatility, global growth accelerated in the first half of 2006 with the pace of expansion starting to slow down towards late 2006. The very fast growth of developing countries over the past five years has been fueled by low interest rates and abundant global liquidity. This has led to rising commodity prices and overheating in some high-income and developing countries. This, in turn, has provoked a tightening of monetary policy that is in part responsible for the slowdown that has already begun. However, in most countries strong productivity growth, due in part to the absorption of China and the former Eastern Bloc countries into the global economy, has checked inflationary pressures. Limited inflationary pressures and high savings among oil exporters and in Europe (as Europeans prepare to meet the challenges of their ageing society) are expected to keep long-term interest rates low. Moreover, improved fundamentals have boosted trend growth rates in many developing countries. Together these factors suggest that, while developing-country growth is projected to slow over the next two years, it should remain very robust and at a pace higher than high income countries. Mainly because of the continued expansion of developing economies, global growth will remain robust and this should keep commodity prices high. Nevertheless, increases in supply, combined with demand-side substitution and conservation measures, should allow for some easing of commodity prices, including that of oil.

Oman: On the domestic front, Oman's economy continued to surge ahead recording a surplus; even though the budget for 2007 shows a deficit, it is clear that it will ultimately be a surplus budget as the estimated price per barrel of crude oil is much lower than current prices, which in turn are lower than the average price prevailing last year. The Sultanate's economic agenda for weaning away the dependence of the Gross Domestic Product (GDP) on oil exports is also on the right track with developments of the Gas & Tourism industry, investments into projects both within and outside Oman and encouraging the development of trade. The initial signs are encouraging. Oman's signing the FTA is expected to also boost trade and investment ties with the US, the world's largest economy. The increased economic activity in the country has spurred consumption and demand for products / services including those supplied by your company; we anticipate this trend to continue for the next couple of years at the least.

In line with global trends, interest rates continue to harden with short term borrowing rates having risen from around 0.75% per annum in mid 2004 to around 5.0% p.a now. An increase in diesel price in mid 2005, hardening realty prices has led to increase in the prices of goods and services as also property rates & rentals. Oman has also made beginnings in relaxing the rules and regulations in respect of labour and their rights as also facilitating the opening up of the job market by allowing expatriates to move from one company to another under simplified rules and limited restrictions. This, combined with increased Omanisation across sectors and increase in minimum wages for nationals, has led to significant corrections in the wage and salary market in Oman. There is an inflationary effect which is now being felt in Oman after years of near zero inflation.

Industry: The first half of the year saw the industry struggling with supply issues, which continued from the previous year. Your company's performance would have been better had it not been for such issues. The industry's efforts at resolving such issues paid off and normalcy of supplies was resumed late in May 2006. Investment in New to Industry (NTI's) sites continues to be done by all the players in varying numbers.

Operational & Financial performance

The Company has delivered a net profit of RO 4.0 m in 2006 an increase of 26.7% over 2005 net profit of RO 3.2 m. This has been possible for reasons discussed briefly below:

Volumes & Sales

Despite the supply issues faced during the 1st five months, barring lubricants, the other businesses (i.e. retail, commercial fuels and aviation) grew over last year whilst maintaining/ improving margins per litre in most businesses. Overall volumes grew by 23% over last year whilst the sales turnover increased disproportionately by 35% (full year effect of gas oil price increase and increase in international aviation fuel pricing).

The lubricants business in the past few months, due to reasons discussed in detail in the MD&A report, has not been doing well. Efforts are underway to turnaround the distributorship business; appropriate management attention on this matter is already there.

Margins

Whilst overall gross margin per ltr has improved marginally from 2005 to 2006, it was negated by an increase in transport costs (partly as a result of rationing in the early parts of the year) resulting in a flat operating margin. Initiatives started late in 2006 on logistics and terminal operations will yield positive results in 2007. However, better productivity and efficiencies could help offset increased operating costs etc. resulted in nearly flat net margins after tax for the underlying Oman Oil business (excluding joint venture)

Profit & Loss, Balance Sheet

The balance sheet remains strong with continued focus on debtors and cash management. Whilst the overall trade debtors have increased with the increase in the sales; it is heartening to note that the average number of debtor days continues to remain 48 days. More importantly, the age profile of the debtors has changed with a reduction in the overall aged debtors as a result of the multi pronged approach that the Company had initiated in 2005. We have also, in consultation with the auditors and the audit committee, adopted a largely non-judgmental approach which is based on historic trends and tends to be on the conservative side, in the methodology used for provisioning of doubtful debts. This has resulted in a charge of RO 458,490 during the year to the P&L account. This gets adjusted on a monthly basis depending on movement in the ageing of the debtors; infact the last quarter of 2006 has seen a credit of RO 120k on this count due to recoveries from accounts already provided for.

We continue to be debt-free resorting to only short term borrowings to address uneven cash flow cycle and all capital expenditure (RO 2.6 m in 2006; RO 1.9 m in 2005) has been funded from internal accruals. A direct consequence of the increased investment is an increased charge on account of depreciation which has increased from RO 1.2 m to RO 1.5 m.

However, with short term borrowing rates on a constant rise, our net interest charge has increased significantly from RO 70K in 2005 to RO 164K in 2006. This is despite savings generated through continued proactive cash management during the year including new initiatives like optimising usage between short term loans and use of overdraft. Liquidity to fund growth beyond current levels, especially inorganic growth, needs to be addressed by balancing between the amount repaid back to shareholders in the form of dividend and that retained to fund growth.

Management focus continues to be on cost and operational efficiencies and effective margin management in targeted areas of the commercial and aviation sector.

Dividend

Your Board of Directors has recommended a cash dividend to shareholders of 47.5 Baisas per share that represents a payout of 47.5% on the nominal value of RO 0.100 per share. The recommendation is in line with your Board’s policy of maintaining a consistent dividend policy whilst addressing the business requirements for funding growth (organic and inorganic).

We have, in line with the regulations, been transferring the unclaimed dividends, six months after from when approved, to the Investor Trust Fund set up by the Capital Market Authority. Shareholders, who have not received their dividends of past years, need to prefer their claims to the Muscat Depository & Securities Registration Company SAOC (MDSRC). We have noted that many Annual Reports and dividend warrants get returned back from the address of the shareholder registered in the MDSRC; this possibly is due to change in address details over time. We recommend shareholders to verify their particulars as registered with MDSRC so as to enable the dividends and information to reach them at the correct address.

Effect of the Stock split

You will recall that we had last year split each share of RO 1 into 10 shares of 100 baisa each. The objectives for this, as set out then, have been fully achieved with this move imparting enhanced liquidity to your company's shares, increase in price and the shares being re-inducted into the MSM 30 index; all these have served to enhance shareholder value. The share price has increased from RO 6.39 (RO 1 share) to RO 0.844 (RO 0.100 share) from Dec 05 to Dec 06 taking the market capitalization of your Company to RO 54.4 m in 2006 from RO 41.2 m in the same month in 2005, an increase of 32 %.

Outlook

The Company has placed itself in a strong position for the future. On the retail front, your Company has adequate permits in hand and applications in the pipeline to facilitate building for 2007 and 2008; fuel cards will be the growth driver. The launch of omanoil branded lubricants in overseas markets is also expected to drive growth for the Company; at the same time the continued viability of the existing lubricants business will need to be kept under a tight monitoring. Relationships already in place and leveraging on them as also independent efforts to develop new ones will help to drive the Commercial fuels growth aided by the increased economic activity in the country. The aviation industry and business, we believe, will see strong growth in the future with the planned expansions of the Muscat and Salalah airports.

Meanwhile, the Company continues to pursue the strategic options laid by your Board both through the JV Company and independently (when there is no conflict of interests). We will keep the members and public updated on these developments.

Your Board has set challenging targets for the Company in 2007 and is confident, that they would continue to deliver growth in line with or exceeding market growth.

Acknowledgments

I would like to take this opportunity to thank our many customers, the Government departments we have had dealings with and our dealers, their staff and our own employees for their continued support. I would reiterate our unwavering commitment to the provision of the highest level of service at all times.

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.

Thank you very much

Salim Abdullah Al Rawas
Chairman

OMAN OIL MARKETING COMPANY SAOG

Income statement

for the year ended 31 December

	Notes	2006 RO	2005 RO
Revenue	*18*	**121,397,435**	90,242,729
Cost of sales		**(109,578,451)**	(80,828,500)
Gross Profit		**11,818,984**	9,414,229
Other income		**308,040**	144,873
Administrative expenses	*3,14,15 &18*	**(5,861,974)**	(4,693,309)
Distribution expenses		**(1,127,202)**	(736,654)
Other expenses		**(383,278)**	(394,576)
Result from operating activities		**4,754,570**	3,734,563
Finance income	*18*	**7,068**	53,776
Finance expenses	*18*	**(171,174)**	(124,085)
Net finance cost		**(164,106)**	(70,309)
Share of net (loss)/ profit from joint venture	*18*	**(30,519)**	27,526
Profit before income tax		**4,559,945**	3,691,780
Income tax expense	*13*	**(543,915)**	(469,615)
Profit for the year		**4,016,030**	3,222,165
Basic earnings per share (restated)	*20*	**0.062**	0.049

The notes on pages 6 to 20 form an integral part of these financial statements.

The report of the Auditors is set forth on page 1.

OMAN OIL MARKETING COMPANY SAOG

Balance Sheet
as at 31 December

	Notes	2006 RO	2005 RO
Assets			
Property, plant and equipment	*3*	**10,647,439**	9,634,075
Interest in Joint Venture	*4 &18*	**17,007**	47,526
Deferred tax	*13*	**62,981**	23,896
Total non-current assets		**10,727,427**	9,705,497
Inventories	*5*	**3,589,735**	2,111,309
Trade and other receivables	*6*	**16,465,147**	12,296,774
Cash and cash equivalents		**1,790,027**	2,300,690
Total current assets		**21,844,909**	16,708,773
Total assets		**32,572,336**	26,414,270
Equity			
Share capital	*7*	**6,450,000**	6,450,000
Statutory reserve	*8*	**2,150,000**	2,150,000
Retained earnings		**6,559,417**	5,445,887
Total equity		**15,159,417**	14,045,887
Liabilities			
Employees' end of service benefits	*9*	**335,326**	310,642
Provision for site restoration and abandonment cost	*10*	**240,241**	207,678
Total non-current liabilities		**575,567**	518,320
Trade and other payables	*11*	**13,888,722**	8,169,566
Short-term loan	*12*	**2,000,000**	2,900,000
Income tax	*13*	**653,038**	457,891
Environmental provision	*14*	**295,592**	322,606
Total current liabilities		**16,837,352**	11,850,063
Total liabilities		**17,412,919**	12,368,383
Total equity and liabilities		**32,572,336**	26,414, 270
Net assets per share (restated)	*21&7*	**0.235**	0.218

The notes on pages 6 to 20 form an integral part of these financial statements.

These financial statements were approved and authorized for issue by the Board of Directors on 31 January 2007 and signed on their behalf by:

Chairman

Chief Executive Officer

The report of the Auditors is set forth on page 1.

OMAN OIL MARKETING COMPANY SAOG

Statement of changes in equity

for the year ended 31 December

	Share capital RO	Statutory reserve RO	Retained earnings RO	Total RO
1 January 2005	6,450,000	2,150,000	4,210,632	12,810,632
Dividends paid – 2004	-	-	(1,935,000)	(1,935,000)
Net profit for the year	-	-	3,222,165	3,222,165
Directors' remuneration	-	-	(51,910)	(51,910)
31 December 2005	6,450,000	2,150,000	5,445,887	14,045,887
1 January 2006	**6,450,000**	**2,150,000**	**5,445,887**	**14,045,887**
Dividends paid – 2005	**-**	**-**	**(2,902,500)**	**(2,902,500)**
Net profit for the year	**-**	**-**	**4,016,030**	**4,016,030**
31 December 2006	**6,450,000**	**2,150,000**	**6,559,417**	**15,159,417**

The notes on pages 6 to 20 form an integral part of these financial statements.

The report of the Auditors is set forth on page 1.

OMAN OIL MARKETING COMPANY SAOG

Cash flow statement
for the year ended 31 December

	Note	2006 RO	2005 RO
Cash flows from operating activities			
Profit before income taxes and after directors remuneration		**4,559,945**	3,639,870
Add (less): Share of profit from joint venture		**30,519**	(27,526)
Adjustments for:			
Depreciation	*3*	**1,498,698**	1,216,980
Loss on disposal of property, plant and equipment		**64,769**	41,393
Net finance costs		**164,106**	70,309
Operating profit before working capital changes		**6,318,037**	4,941,026
Change in inventories	*5*	**(1,478,426)**	(593,415)
Change in receivables	*6*	**(4,168,376)**	(1,233,852)
Change in payables	*11*	**5,704,560**	1,291,830
Change in provisions and employee benefits	*9*	**24,684**	(11,732)
Cash from operations		**6,400,479**	4,393,857
Interest paid		**(171,174)**	(124,085)
Income tax paid	*13*	**(387,853)**	(292,158)
Net cash from operating activities		**5,841,452**	3,977,614
Cash flows from investing activities			
Interest received		**7,068**	53,776
Proceeds from disposal of property, plant and equipment		**5,643**	71,431
Acquisition of property, plant and equipment	*3*	**(2,562,326)**	(1,951,703)
Net cash used in investing activities		**(2,549,615)**	(1,826,496)
Cash flows from financing activities			
(Decrease) increase in short term loan		**(900,000)**	1,400,000
Dividends paid		**(2,902,500)**	(1,935,000)
Net cash (used in) financing activities		**(3,802,500)**	(535,000)
Net decrease in cash and cash equivalents		**(510,663)**	1,616,118
Cash and cash equivalents at 1 January		**2,300,690**	684,572
Cash and cash equivalents at 31 December		**1,790,027**	2,300,690

The notes on pages 6 to 20 form an integral part of these financial statements.

The report of the Auditors is set forth on page 1.

1 Legal status and principal activities

Oman Oil Marketing Co. SAOG ("the Company") 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. The Company is a subsidiary of Oman Oil Company SAOC, a closed joint stock Company registered in the Sultanate of Oman. The Company has entered into a 'Trademark License Agreement' with Oman Oil Company SAOC dated 22nd September 2003, for the right to use the trademark 'Oman Oil', in exchange for an annual fee of 0.09% of all fuel sales.

2 Basis of preparation and significant accounting policies

Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the disclosure requirements of the Capital Market Authority and the requirements of the Commercial Companies Law of 1974, as amended.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for provisions for site restoration and abandonment cost which are measured at amortized cost.

c) Functional currency

These financial statements are presented in Riyal Omani (RO), which is the Company's functional currency.

d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, estimates that involve uncertainties and judgments which have a significant effect on the financial statements include: provisions for impairment of receivables (note 6), provision for environmental remediation (note 14) and provision for site abandonment and restoration cost (note 10).

Significant accounting policies

The accounting policies set out below have been applied consistently by the Company and are consistent with those used in the previous year.

a) Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting dates are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognized in the profit or loss.

Notes
(forming part of the financial statements)

2 Basis of preparation and significant accounting policies *(continued)*

b) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset. The cost includes any other cost that is directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of an item if it is probable that future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of the property, plant and equipment. Assets under construction are not depreciated. The estimated useful lives for the current and comparative periods are as follows:

	Years
Buildings	10 to 20
Plant, equipment and vehicles	2 to 13

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

c) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories include expenditures incurred in acquiring the inventories and bringing them to their existing location and condition, as follows:

- Petroleum products and lubricants: purchase cost on a first-in-first out basis
- Stores: at weighted average cost

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

2 Basis of preparation and significant accounting policies *(continued)*

d) Impairment

(i) *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the income statement.

(ii) *Non-financial assets*

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

e) Employee benefits

Defined contribution plan
Obligations for contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognized as an expense in the income statement as incurred.

The Company's obligation in respect of non-Omani terminal benefits, under defined contribution retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate used reflects current market assessments of the time value of money.

2 Basis of preparation and significant accounting policies *(continued)*

f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

An environmental provision is recognised when the Company, through environmental assessments, identifies a requirement for environmental remediation as a result of a past event and the associated costs can be reasonably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

g) Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, allowances and trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

h) Leases

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

i) Income tax

Income tax comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2 Basis of preparation and significant accounting policies *(continued)*

j) Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

k) New standards and interpretation not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these financial statements:

- *IFRS 7 Financial Instruments: Disclosures and the Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to the Company's financial instruments and share capital.

- *IFRIC 7 Applying the Restoration Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 is not expected to have any impact on the financial statements.

- *IFRIC 8 Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all goods or services received cannot be specifically identified. IFRIC 8 is not expected to have any impact on the financial statements.

- *IFRIC 9 reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 is not expected to have any impact on the financial statements.

- *IFRIC 10 Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Company's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Company first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004).

l) Directors' remmuneration

The total remuneration paid to non-executive directors comprising sitting fees and remuneration is in accordance with the provisions and is within the limits of the Commercial Companies Law; the CMA guidance; and the Articles of Association of the Company. Executive directors, if any, apart from their contractual benefits and performance linked pay are not eligible for any sitting fees or fixed remuneration. Directors's remmuneration is recongised in the income statement.

2 Basis of preparation and significant accounting policies *(continued)*

m) Joint venture

Joint venture: jointly controlled assets
Investment in jointly controlled assets is recognized only to the extent of the Company's share of assets, classified according to the nature of assets, liabilities which it has incurred, income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture.

Joint venture: jointly controlled entity
Investment in a jointly controlled entity is recognized using the equity method, from the date the Company obtains joint control, at cost plus the Company's share of post acquisition retained results and other changes in net assets.

The Company discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity.

n) Dividends

Dividends are recommended by the Board after considering the profit available for distribution and the Company's future cash requirements and are subject to approval by the shareholders at Annual General Meeting. Dividends are recognized as a liability in the period in which they are declared.

o) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and /or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to the asset or liability.

(i) *Property, plant and equipment*

The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant and equipments is based on the quoted market prices for similar items.

(ii) *Inventory*

The fair value of inventory is determined based on its estimated selling price in the ordinary course of the business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

(iii) *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of the future cash flows, discounted at the market rate of interest at the reporting date.

3 Property, plant and equipment

	Buildings RO	Plant, equipment and vehicles RO	Assets under construction RO	Total RO
Balance at 1 January 2006, net of accumulated depreciation	1,942,667	6,843,169	848,239	9,634,075
Additions	-	20,146	2,569,238	2,589,384
Transfers	842,493	2,115,241	(2,957,734)	-
Disposals	(58)	(77,264)	-	(77,322)
Depreciation for the year	(162,872)	(1,335,826)	-	(1,498,698)
Balance at 31 December 2006, net of accumulated depreciation	**2,622,230**	**7,565,466**	**459,743**	**10,647,439**
Property, plant and equipment:				
Cost	3,266,130	13,010,008	459,743	16,735,881
Accumulated depreciation	(643,900)	(5,444,542)	-	(6,088,442)
Net carrying amount	**2,622,230**	**7,565,466**	**459,743**	**10,647,439**

The Company's 50% share of plant and equipment and assets under construction at the main storage depot at Mina Al Fahal ("the depot") in the amount of RO 1,036,378 (2005: RO 1,092,678) and RO 11,670 (2005: RO 54,827), respectively, are included in property, plant and equipment. Under an agreement dated 6 December 1995 between the Company and Al Maha Petroleum Products Marketing Company SAOG ("Al Maha"):

- such assets are controlled jointly with Al Maha and cannot be sold without the mutual consent of the Company and Al Maha;
- costs of this depot are shared equally with Al Maha; and
- the depot is operated by the Company for agreed management fees.

The land, on which the main storage depot and buildings are located, is leased from the Ministry of Oil and Gas jointly with Al Maha under a lease which commenced on 23 November 1998 and expires on 22 November 2008.

4 Interest in Joint Venture

The Company has entered into a joint venture agreement with Al Sarooj Group LLC dated 10 June 2004 ("the Agreement"). Under the terms of the Agreement the Company has a 50% interest in a jointly controlled entity, Oman Oil Marketing & Sarooj Group LLC ("the Joint Venture"), a limited liability company incorporated in the Sultanate of Oman with share capital of RO 40,000. The Joint Venture was registered on 10 August 2004. The Joint Venture's principal activity is to carry out commercial activities in the oil and gas sector outside the Sultanate of Oman.

Notes
(forming part of the financial statements)

4 Interest in Joint Venture *(continued)*

The Company's share of assets and liabilities of the Joint Venture is as follows:

	2006	2005
	RO	RO
Current assets	**274,446**	232,072
Non-current assets	**4,626**	4,626
Current liabilities	**(261,228)**	(189,172)
Non-current liabilities	**(837)**	-
	17,007	47,526

5 Inventories

	2006	2005
	RO	RO
Oil and lubricants	**3,581,279**	2,091,453
Stores	**8,456**	19,856
	3,589,735	2,111,309

6 Trade and other receivables

	RO	RO
Trade receivables	**15,779,253**	11,811,651
Less: impairment provision	**(1,028,329)**	(575,183)
	14,750,924	11,236,468
Amounts due from related parties (note 18)	**370,615**	341,823
Other receivables	**378,130**	262,126
Prepaid expenses	**965,478**	456,357
	16,465,147	12,296,774

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

	2006	2005
	RO	RO
Balance at 1 January	**575,183**	300,262
Provided during the year	**458,490**	297,549
Written off during the year	**(5,344)**	(22,628)
Balance at 31 December	**1,028,329**	575,183

The Company has accepted guarantees / collateral valued at RO 404,630 from customers to secure fully/ partly their dues to the Company. The receivable from one customer in the amount of RO 9,304 is secured by a first charge over property valued at RO 35,200.

Notes

(forming part of the financial statements)

7 Share capital

The shareholders in the extraordinary general meeting held on 25 March 2006 have resolved to amend the authorized share capital from 15,000,000 to 150,000,000 shares and the issued and fully paid share capital from 6,450,000 to 64,500,000 shares by reducing the nominal value of share from RO 1 per share to baizas 100 per share.

The Company's authorized share capital consists of 150,000,000 (2005: 15,000,000) shares of baizas 100 each (2005: RO 1 each).

The Company's issued and fully paid up share capital comprises 64,500,000 (2005: 6,450,000) shares of baizas 100 each (2005: RO 1 each) as follows:

	20064 Number of shares	2005 Number of shares
322,500 Multi-vote shares	**3,225,000**	322,500
6,127,500 Ordinary shares	**61,275,000**	6,127,500
	64,500,000	6,450,000

In accordance with Article 5 of chapter two of the Company's Articles of Association, the holder of each multi-vote share is entitled to two votes at the annual general meeting of the Company.

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

	4 Number of shares	Number of shares
Oman Oil Company SAOC – Multi-vote shares	**3,225,000**	322,500
– Ordinary shares	**28,380,000**	2,838,000
	31,605,000	3,160,500

8 Legal reserve

As required by the Commercial Companies Law of the Sultanate of Oman, 10% of the profit of each year is transferred to a legal reserve until the reserve reaches 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. This reserve is not available for distribution.

Notes
(forming part of the financial statements)

9 Employees' end of service benefits

	2006	2005
	RO	RO
Movements in the liability recognised in the balance sheet are as follows:		
Accrual as at 1 January	**310,642**	322,374
Accrued during the year	**41,586**	49,351
End of service benefits paid	**(16,902)**	(61,083)
Accrual as at 31 December	**335,326**	310,642

10 Provision for site restoration and abandonment cost

Movements in the provisions are as follows:

	2006	2005
	RO	RO
As at 1 January	**207,678**	189,854
Additional provision (net)	**20,102**	6,701
Unwind of discount (included in finance costs)	**12,461**	11,123
As at 31 December	**240,241**	207,678

11 Trade and other payables

	2006	2005
	RO	RO
Trade accounts payable	**12,907,631**	7,205,033
Accrued expenses	**908,591**	912,623
Directors' remuneration payable	**72,500**	51,910
	13,888,722	8,169,566

Other payables include unclaimed dividend in the amount of RO Nil (2005: RO Nil). The Company in accordance with Capital Markets Authority (CMA) regulations transfers dividends unclaimed for a period of more than 6 months from the date they became due to the CMA's investor fund. Such unclaimed dividends transferred during the year amounted to RO 9,031 (2005: RO 23,472). Eligible shareholders who have not received their dividends are entitled to claim them from the CMA.

12 Short-term loan

The loan is repayable within one year of the balance sheet date. The loan is unsecured and carries interest at current market rates.

Notes
(forming part of the financial statements)

13 Income tax

	2006 RO	2005 RO
Current liability:		
Current year	**583,000**	417,000
Prior years	**70,038**	40,891
	653,038	457,891
Income statement:		
Current year	**583,000**	417,000
Reversal of excess tax provision relating to earlier years	**-**	(3,248)
Deferred tax asset relating to the origination and reversal of temporary differences	**(39,085)**	55,863
	543,915	469,615
Deferred tax asset:		
At 1 January	**23,896**	79,759
Movement for the year	**39,085**	(55,863)
At 31 December	**62,981**	23,896

The deferred tax asset comprises the following temporary differences:

Provisions and other charges	**281,704**	301,115
Property, plant and equipment	**(218,723)**	(277,219)
	62,981	23,896

The Company is subject to income tax in accordance with the income tax law of the Sultanate of Oman at the enacted tax rate of 12% of taxable income in excess of RO 30,000. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. The reconciliation of tax as per accounting profit to effective tax is set out below:

Reconciliation of effective tax rate

	Rate %	2006 RO	Rate %	2005 RO
Profit before tax		**4,559,945**		3,691,780
Income tax	**12**	**543,593**	12	439,414
Effect of tax specific allowances	**(0.29)**	**(7,127)**		(10,465)
Effect of tax specific disallowances	**1.11**	**7,449**	1.11	40,666
Effective tax	**12.72**	**543,915**	12.72	469,615

The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

Notes
(forming part of the financial statements)

13 Income tax (continued)

The income tax assessments of the Company for the years 2003 to 2005 has not been finalized with the Secretariat General of Taxation Affairs at the Ministry of Finance. The Management considers that additional tax liability, if any, in respect of open tax years would not be material to the financial position of the Company as at 31 December 2006. The deferred tax asset has been computed at the tax rate of 12%.

14 Environmental provision

	2006 RO	2005 RO
Balance as at 1 January	**322,606**	239,728
Provided during the year	**2,558**	120,160
Utilised	**(29,572)**	(37,282)
Balance as at 31 December	**295,592**	322,606

The Company provides for environmental remediation costs based on environmental contamination assessments made on its delivery and storage sites. The entire provision of RO 295,592 is expected to be used as per site specific remediation plans drawn up by the Company with their environmental consultants.

15 Employee costs

	2006 RO	2005 RO
Wages and salaries	**(830,312)**	(755,564)
Other benefits	**(866,203)**	(802,098)
Contributions to a defined contribution retirement plan	**(52,704)**	(39,439)
Increase in liability for unfunded defined benefits retirement plan	**(41,586)**	(49,351)
	(1,790,805)	(1,646,451)

The Company had 103 employees as of 31 December 2006 (31 December 2005:95).

16 Expenditure commitments

Operating leases

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:

	2006 RO	2005 RO
Future minimum lease payments:		
Not later than one year	**402,870**	373,607
Later than one year and not later than five years	**612,378**	733,430
More than five years	**559,034**	723,156
	1,574,282	1,830,193

Capital Commitments

Contracted	**405,298**	183,172

17 Segmental information

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

18 Related party transactions

The Company has provided a corporate guarantee to a bank on behalf of the Joint Venture (refer note 22) for no consideration.

The Company has entered into transactions with entities over which certain Directors are able to exercise significant influence. In the normal course of business, the Company provides services on commercial terms to related parties and avails services from related parties. The Directors believe that the terms of providing and receiving such services are comparable with those that could be obtained from third parties.

The volumes of significant related party transactions during the year and with parties with a shareholding of 10% or more in the Company and / or related to Directors, were as follows:

	2006	2005
	RO	RO
Fuel sales to filling stations owned by Directors	**3,125,667**	2,897,875
Brand royalty	**(106,208)**	(78,461)
IT and other services from companies owned directly or indirectly by Directors	**(65,136)**	(69,684)
Remuneration to Directors	**(72,500)**	(51,910)
Directors' sitting fees	**(17,300)**	(18,400)
Net interest paid	**53,684**	37,186
Fee for accounting services	**6,000**	2,000
Share of profits of Joint Venture	**(30,519)**	27,526
Sale of company car	**5,500**	-

Amounts due from related parties are disclosed in note 6. Bank balances in the amount of RO 1,196,392 (2005: RO 588,410) are with a related party bank.

During the year, one (2005: one) of the Company's directors was also an employee of the Company till 30 April 2006. In his capacity as an employee of the Company, he earned an aggregate of RO 93,399 (2005: RO 115,182) in salaries and benefits. This one (2005: one) director earned an aggregate RO 6,000 (2005: nil) remuneration in his separate capacity as a non-executive director.

At 31 December 2006, an amount of RO 244,915 was due from an entity over which the Directors are able to exercise significant influence. The Company has provided approximately RO 32,000 against this customer as of 31 December 2006.

19 Dividends paid and proposed

During the year, dividends of RO 0.450 per share totalling RO 2,902,500 relating to 2005 were declared and paid (2005- RO 0. 300 per share totalling RO 1,935,000 relating to 2004).

The Board of Directors has proposed a cash dividend of RO 0.047 per share for 2006, totaling RO 3,063,750, which is subject to the approval of the shareholders at the Annual General Meeting.

20 Basic 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:

	2006	Restated 2005
	RO	RO
Net profit for the year after deducting Directors' remuneration	**4,016,030**	3,170,255
Weighted average number of shares outstanding during the year	**64,500,000**	64,500,000
Earnings per share	**0.062**	0.049

During the year ended 31 December 2006, the Company had amended the issued and paid up capital by amending the nominal value of shares from RO.1 each to Baizas 100. Since the stock split (please refer note 7) was without consideration, the issue is treated as if it had occurred prior to the beginning of 2005 and accordingly the prior year earnings per share included in these financial statements for comparative purposes have been restated.

21 Net assets per share

The calculation of net assets per share is based on net assets for the year ended 31 December 2006 attributable to ordinary shareholders of RO 15,159,417 (31 December 2005: RO 14,045,887) and on 64,500,000 shares (31 December 2005: 64,500,000 shares). Since the stock split (please refer note 7) was without consideration, the issue is treated as if it had occurred prior to the beginning of 2005 and, accordingly, the prior year net assets per share included in these financial statements for comparative purposes have been restated.

22 Contingencies

At 31 December 2006 the Company had contingent liabilities in respect of 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 1,364,314 (2005: RO 842,354).

The Company has also provided a corporate guarantee of RO 500,000 (2005: RO 500,000), to secure a credit facility of RO 1 million for the joint venture (see note 4). Management has estimated that the fair value of this guarantee is approximately RO 10,000 (2005: RO10,000).

23 Financial instruments

Exposure to credit, interest rate and foreign currency risk arise in the normal course of the Company's business.

Interest rate risk

The Company manages its exposure to interest rate risk by ensuring that borrowings are on a contracted fixed rate basis.

23 Financial instruments *(continued)*

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an on going basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

Whilst the Company sells its products to a large number of customers in Oman, its five largest customers account for 38% of trade receivables at 31 December 2006 (2005: 32%).

Liquidity risk

The Company limits its liquidity risk by ensuring appropriate bank facilities are available to address any foreseeable liquidity requirements. The Company's terms of sale require amounts to be paid within 90 days of the date of sale. Trade payables are normally settled within 15 to 45 days from the date of invoice.

Foreign currency risk

Foreign currency risk is minimal as most transactions are either denominated in RO, US Dollars or in currencies linked to US Dollars. The rate of exchange between RO and US Dollars has remained unchanged since January 1986.

24 Comparative figures

Certain prior year corresponding figures presented for comparative purposes relating to marketing, distribution and administrative expenses have been reclassified to be consistent with the revised presentation adopted this year.

Additionally, for 2005, proposed Directors' remuneration in the amount of RO 51,910 is presented as an appropriation of retained earnings in the statement of changes in equity, whereas for 2006 proposed Directors' remuneration of RO 72,500 is presented within administrative expenses in the income statement.