

SHELL OMAN MARKETING COMPANY SAOG.

Financial statements

31 December 2000

Registered office and principal place of business:

Mina Al Fahal
P O Box 38
Mina Al Fahal PC 116
Sultanate of Oman

SHELL OMAN MARKETING COMPANY SAOG

Financial statements

31 December 2000

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REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF SHELL OMAN MARKETING COMPANY SAOG

31 December 2000 and the profit and loss account and cash flows for the year then ended, set out on pages 2 to 15.

Respective responsibilities of the Board of Directors and Auditors

express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2000, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards as promulgated by the International Accounting Standards Committee and comply with the Commercial Companies Law of 1974.

SHELL OMAN MARKETING COMPANY SAOG

Profit and loss account

for the year ended 31 December 2000

	<i>Note</i>	2000	1999
Sales	<i>16</i>	145,909	135,761
Cost of sales	<i>16</i>	(128,819)	(116,560)
Gross profit		17,090	19,201
Selling & distribution expenses	<i>3&16</i>	(4,537)	(4,674)
Administrative expenses	<i>3&16</i>	(2,914)	(3,488)
Depreciation	<i>4</i>	(2,711)	(2,418)
Amortisation	<i>5</i>	-	(210)
Profit from operations		6,928	8,411
Net financing expenses	<i>8&9</i>	(146)	(331)
Change in accounting policy for intangible asset	<i>5</i>	(1,627)	-
Profit before income tax		5,155	8,080
Tax income (expense)	<i>10</i>	2,735	(262)
Profit for the year		7,890	7,818
Earnings per share	<i>14</i>	RO 0.789	RO 0.782
Proposed dividend per share	<i>15</i>	RO 0.650	RO 0.640

The notes on pages 6 to 15 form part of these financial statements.

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

SHELL OMAN MARKETING COMPANY SAOG

Balance sheet

as at 31 December 2000

	<i>Note</i>	2000	1999
Non-current assets			
Property, plant and equipment	4	11,931	13,290
Intangible asset	5	-	1,627
Deferred tax asset	10	3,047	-
		<u>14,978</u>	<u>14,917</u>
Current assets			
Inventories	6	6,463	8,953
Receivables and prepayments	7	12,993	15,408
Cash at bank and in hand	8	5,302	3,336
		<u>24,758</u>	<u>27,697</u>
Current liabilities			
Short-term loan	9	-	440
Current tax payable	10	390	668
Payables and accruals	11	12,936	16,321
Provisions		323	548
		<u>13,649</u>	<u>17,977</u>
Net current assets		<u>11,109</u>	<u>9,720</u>
Net assets		<u>26,087</u>	<u>24,637</u>
Capital and reserves			
Share capital	12	10,000	10,000
Legal reserve	13	3,587	3,587
Retained earnings		12,500	11,050
		<u>26,087</u>	<u>24,637</u>

The notes on pages 6 to 15 form part of these financial statements.

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

These financial statements were authorised for issue by the Board of Directors on 7 February 2001 and were signed on their behalf by:

Chairman

Director

SHELL OMAN MARKETING COMPANY SAOG

Statement of changes in equity

for the year ended 31 December 2000

	<u>Share capital</u>	<u>Legal reserve</u>	<u>Retained earnings</u>	<u>Total</u>
1 January 1999 as previously reported	10,000	3,587	3,275	16,862
Restatement for change in accounting policy for dividend (note 15)	-	-	6,100	6,100
	<hr/>	<hr/>	<hr/>	<hr/>
Restated capital and reserves at 1 January 1999 (note 15)	10,000	3,587	9,375	22,962
Final dividend for 1998	-	-	(6,100)	(6,100)
Profit for the year	-	-	7,818	7,818
	-	-	(43)	(43)
	<hr/>	<hr/>	<hr/>	<hr/>
Restated capital and reserves at 31 December 1999 (note 15)	10,000	3,587	11,050	24,637
Final dividend for 1999	-	-	(6,400)	(6,400)
Profit for the year	-	-	7,890	7,890
	-	-	(40)	(40)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2000	10,000	3,587	12,500	26,087
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SHELL OMAN MARKETING COMPANY SAOG**Cash flow statement***for the year ended 31 December 2000*

	2000	1999
Operating activities		
Profit for the year	7,890	7,818
Proposed Directors' remuneration	(40)	(43)
<i>Items not affecting the cash flow:</i>		
Depreciation	2,711	2,418
Amortisation	-	210
Change in accounting policy for intangible asset	1,627	-
Loss on disposal of property, plant and equipment	81	191
Recognition of deferred tax asset	(3,047)	-
	9,222	10,594
Decrease (increase) in inventories	2,490	(1,406)
Decrease (increase) in receivables and prepayments	2,415	(427)
(Decrease) increase in payables, accruals and provisions	(3,610)	3,039
Decrease in income taxes payable	(278)	(135)
Cash flows from operating activities	10,239	11,665
Investing activities		
Additions to property, plant and equipment	(1,492)	(1,722)
Proceeds from disposal of property, plant and equipment	59	321
Cash flows from investing activities	(1,433)	(1,401)
Financing activities		
Dividends paid	(6,400)	(6,100)
Decrease in short-term loans	(440)	(721)
Cash flows from financing activities	(6,840)	(6,821)
Net increase in cash and cash equivalents	1,966	3,443
Cash and cash equivalents at the beginning of the year	3,336	(107)
Cash and cash equivalents at the end of the year	5,302	3,336

The notes on pages 6 to 15 form part of these financial statements.

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SHELL OMAN MARKETING COMPANY SAOG

Notes

(forming part of the financial statements)

1 Legal status and principal activities

Sultanate of Oman and is engaged in the marketing and distribution of petroleum products and the blending of lubricants. The accounts of the Company are consolidated in the financial statements of Royal the annual reports of Royal Dutch

Company plc (a company incorporated in the United Kingdom).

2 Principal accounting policies

a) Statement of compliance

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Standing Interpretations Committee of the IASC and the requirements of the Commercial Companies Law of 1974.

b) Change in accounting policies

These financial statements have been prepared on the historical cost basis. The accounting policies have been applied consistently in dealing with items which are considered material in relation to the

[note 2 (d)] and accounting policy for dividend [note 2 (o)].

c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Capital work-in-progress is not depreciated. Property, plant and equipment are depreciated on a straight-line basis over the estimated economic lives as noted below:

	<i>Years</i>
Buildings	6-25
Plant and equipment	3-7
Motor vehicles	3

d) Intangible asset

Upto 31 December 1999, the Company deferred share issue costs as an intangible asset and amortised the intangible asset on a straight -
market petroleum products in the Sultanate of Oman. -year licence to

With effect from 1 January 2000, the Company, following the introduction of IAS 38 Intangible Assets, has changed its accounting policy and such costs are charged to the profit and loss account as incurred.

SHELL OMAN MARKETING COMPANY SAOG

Notes

(forming part of the financial statements)

2 Principal accounting policies (continued)

e) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

The cost of lubricants inventories is based on the weighted average principle and includes cost of direct materials, labour and an appropriate share of overheads based on normal operating capacity.

The cost of other inventories is based on the first-in-first-out method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

f) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and balances with bank.

h) Impairment

The carrying amounts of the Co deferred tax assets (refer note (m) below), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount.

i) Trade and other payables

Trade and other payables are stated at cost.

j) Revenue

Revenue from sale of goods is recognised in the profit and loss account when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or the possible return of goods.

k) Employee benefits

Contributions to a defined contribution retirement plan, for Omani employees in accordance with the Oman Social Insurance Scheme, are recognised as an expense in the profit and loss account as incurred.

Provision for non-Omani employee terminal benefit contributions, which is an unfunded defined benefit retirement plan, is made in accordance with Omani Labour Laws and is based on the liability that would arise if the employment of all employees was terminated at the balance sheet date.

SHELL OMAN MARKETING COMPANY SAOG

Notes

(forming part of the financial statements)

2 Principal accounting policies (continued)

l) Foreign currencies

Transactions denominated in foreign currencies are translated into Rial Omani and recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling on the balance sheet date. Realised and unrealised exchange gains and losses are recognised in the profit and loss account.

m) Income taxes

Income tax on the profit for the year comprises current tax and deferred tax.

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

Deferred tax is provided 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet 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 unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

n) Directors' remuneration

In accordance with the Commercial Companies Law of 1974, directors' remuneration is shown as an appropriation of retained earnings.

o) Dividend

Upto 31 December 1999, the Company followed an accounting policy of recognising as a liability dividend approved by the Board of Directors subsequent to the balance sheet date.

With effect from 1 January 2000 the Company, following an amendment to IAS 10 Events after the balance sheet date, has changed its accounting policy and recognises dividend as a liability in the period in which it is declared.

p) Provisions for environment remediation and restructuring

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Liabilities for environment remediation, resulting from past operations or events are recognised in the period in which an obligation to a third party arises and the amount can be reasonably estimated. Measurement of liabilities is based on current legal requirements and existing technology. Provision for restructuring is recognised when the Company has approved a detailed plan and the restructuring has commenced.

SHELL OMAN MARKETING COMPANY SAOG**Notes***(forming part of the financial statements)***3 Employee costs**

Employee costs included in selling & distribution and administrative expenses comprise:

	2000	1999
Wages and salaries	1,527	1,623
Contributions to defined contribution retirement plan	71	69
Increase in liability for unfunded defined benefit retirement plan	53	51
	<u>1,651</u>	<u>1,743</u>

The average number of employees during 2000 was 219 (1999: 239 employees).

4 Property, plant and equipment

	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Motor vehicles</u>	<u>Total</u>
<i>Cost</i>				
1 January 2000	1,255	16,344	415	18,014
Additions	178	1,314	-	1,492
Disposals	(20)	(195)	(34)	(249)
31 December 2000	<u>1,413</u>	<u>17,463</u>	<u>381</u>	<u>19,257</u>
<i>Depreciation</i>				
1 January 2000	94	4,415	215	4,724
Depreciation	94	2,506	111	2,711
On disposals	(5)	(78)	(26)	(109)
31 December 2000	<u>183</u>	<u>6,843</u>	<u>300</u>	<u>7,326</u>
<i>Net book value</i>				
31 December 2000	<u>1,230</u>	<u>10,620</u>	<u>81</u>	<u>11,931</u>
31 December 1999	<u>1,161</u>	<u>11,929</u>	<u>200</u>	<u>13,290</u>

ntil

31 October 2006 at a rent of RO 28,080 per annum.

of RO 5,380 per annum. The lease does not have a date of expiry.

At 31 December 2000, plant and equipment includes capital work-in-progress in the amount of approximately RO 1,063,000 (1999: RO 963,000).

SHELL OMAN MARKETING COMPANY SAOG

Notes

(forming part of the financial statements)

5	Intangible asset	2000	1999
	<i>Cost</i>		
	1 January and 31 December	<u>2,100</u>	<u>2,100</u>
	<i>Accumulated amortisation</i>		
	1 January	473	263
	Amortisation	-	210
	Change in accounting policy (see below)	<u>1,627</u>	<u>-</u>
	31 December	<u>2,100</u>	<u>473</u>
	<i>Net book value</i>		
	31 December	<u>-</u>	<u>1,627</u>

Intangible asset represents the unamortised share issue costs on the initial public offering in 1997. Upto 1999, the Company followed an accounting policy of amortising the intangible asset on a straight-line basis over the Company's current ten-year licence to market petroleum products in the Sultanate of Oman.

Following the introduction of International Accounting Standard 38 - Intangible Assets, the Company has derecognised the intangible asset from the balance sheet as the Board of Directors believe that the intangible asset does not meet the definition criteria set out in IAS 38. Accordingly, the unamortised intangible asset at 1 January 2000 in the amount of approximately RO 1,627,000 has been charged to the profit and loss account.

Had the benchmark treatment under IAS 8 been followed for reporting the effect of adopting IAS 38, the unamortised intangible asset at 1 January 1999 in the amount of approximately RO 1,837,000 would be derecognised from the balance sheet and the balance of retained earnings at 1 January 1999 would be restated and decreased by approximately RO 1,837,000. Further, profit for the years ended 31 December 2000 and 1999 would be higher in the amounts of approximately RO 1,627,000 and RO 210,000 respectively.

6	Inventories	2000	1999
	Petroleum products	4,828	7,244
	Raw materials	899	935
	Lubricants	274	263
	Chemicals	40	48
	Other material	422	463
		<u>6,463</u>	<u>8,953</u>

SHELL OMAN MARKETING COMPANY SAOG**Notes***(forming part of the financial statements)*

7	Receivables and prepayments	2000	1999
	Trade accounts receivable	11,368	13,041
	Other receivables	838	1,491
	Receivables from related parties (note 16)	511	668
	Prepayments	276	208
		<u>12,993</u>	<u>15,408</u>

8 Cash at bank and in hand

Cash balances are held with local commercial banks and earn interest at commercial rates. In 2000, the Company earned interest income of approximately RO 87,000 (1999: RO 31,000).

The Company has credit facilities with local and foreign commercial banks, which are unsecured and bear interest at the Central Bank of Oman's Base Lending Rate less a discount. In 2000, the Company incurred interest expense of approximately RO 221,000 (1999: RO 92,000). The facilities are repayable on demand.

9 Short-term loan

The Company availed an unsecured short-term loan from a foreign commercial bank bearing interest at a fixed commercial rate. The Company incurred interest expense of approximately RO 12,000 (1999: 270,000). The short-term loan was repaid in June 2000.

10	Income tax	2000	1999
	Components of tax income (expense) are:		
	Current tax expense	(312)	(262)
	Deferred tax income	3,047	-
	Tax income (expense)	<u>2,735</u>	<u>(262)</u>

The Company is liable to income tax in accordance with the income tax law of the Sultanate of Oman at the enacted tax rate of 12% on taxable income in excess of RO 30,000.

SHELL OMAN MARKETING COMPANY SAOG

Notes*(forming part of the financial statements)***10 Income tax (continued)**

The following is a reconciliation of income taxes calculated at the applicable tax rate with the tax income (expense):

	2000	1999
Profit before income tax	<u>5,155</u>	<u>8,080</u>
Income tax at the rates mentioned above	615	966
Benefit of current year tax deductions	(458)	(386)
Benefit of previously unrecognised tax deductions	(2,877)	(318)
Overprovided in prior year	(15)	-
Tax (income) expense	<u><u>(2,735)</u></u>	<u><u>262</u></u>
Deferred tax asset is attributable to the following:		
Intangible assets	170	-
Previously unrecognised tax deductions	<u>2,877</u>	-
Deferred tax asset	<u><u>3,047</u></u>	<u><u>-</u></u>

Current status of tax assessments

The Company's tax assessments from 1998 to 2000 have not been finalised by the Secretariat General of Taxation at the Ministry of Finance. The Board of Directors consider that the amount of additional taxes, if any, that may become payable on finalisation of the open tax years would not be significant to

11 Payables and accruals

	2000	1999
Trade accounts payable	10,530	14,097
Other payables	667	394
Payables to related parties (note 16)	95	27
Accrued costs	1,204	1,378
Employee terminal benefits	440	425
	<u><u>12,936</u></u>	<u><u>16,321</u></u>

SHELL OMAN MARKETING COMPANY SAOG

Notes

(forming part of the financial statements)

12 Share capital

The Company's authorised, issued and fully paid-up share capital consists of 10,000,000 shares of RO 1 each as follows:

	2000	1999
500,000 Multi-vote shares of RO 1 each	500	500
9,500,000 Ordinary shares of RO 1 each	9,500	9,500
	<u>10,000</u>	<u>10,000</u>

n, the holder of each Multi-vote share is entitled to two votes at the annual general meetings of the Company. A company controlled by the Parent holds all the Multi-vote shares.

13 Legal reserve

The Commercial Companies Law of 1974 requires that 10% of non-distributable legal reserve until the amount of legal reserve becomes equal to one-third of the share capital on formation, no further transfers have been made during the year.

14 Earnings per share

The calculation of basic earnings per share is based on profit for the year of approximately RO 7,890,000 (1999: RO 7,818,000) and 10,000,000 shares (1999: 10,000,000 shares).

15 Dividend

Upto 31 December 1999, the Company followed an accounting policy of recognising as a liability dividend approved by the Board of Directors subsequent to the balance sheet date. Following the amendment to IAS 10 Events after the balance sheet date, the Company has changed its accounting policy and recognises dividend as a liability in the period in which it is declared.

Proposed dividends for the years ended 31 December 1999 and 1998 in the amounts of RO 6,400,000 and RO 6,100,000 respectively have been restated under retained earnings at 31 December 1999 and 1 January 1999 respectively. Current liabilities as at 31 December 1999 have been accordingly restated to exclude the proposed dividend for the year ended 31 December 1999 in the amount of RO 6,400,000.

Proposed dividend

The Board of Directors at the meeting dated 7 February 2001, proposed a dividend of RO 6,500,000 for the year ended 31 December 2000 (1999: RO 6,400,000).

The calculation of proposed dividend per share is based on proposed dividend of RO 6,500,000 (1999: RO 6,400,000) and 10,000,000 shares (1999: 10,000,000 shares).

SHELL OMAN MARKETING COMPANY SAOG

Notes

(forming part of the financial statements)

16 Related party transactions

The Company has entered into transactions with subsidiaries of the Parent and entities over which certain Directors are able to exercise significant influence. Transactions with related parties at normal commercial terms were as follows:

	2000	1999
		000
Sales	14,674	14,931
Purchases	4,152	5,189
Service and trademark licence fees	675	649
Distribution expenses	419	1,501
	<u> </u>	<u> </u>

Company. In their capacity as employees of the Company, they received an aggregate of RO 101,501 (1999: RO 139,860) in salaries and benefits. These two (1999: three) Directors received no additional remuneration in their separate capacity as Directors.

During the year, the remaining eight (1999: seven) non-executive Directors were paid an aggregate

17 Financial instruments

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

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. The Company requires bank guarantees on higher credit risk customers. The Company does not require collateral in respect of all other financial assets.

Investments are allowed in liquid securities and only with commercial banks in Oman. The Management does not expect any counter party to fail to meet its obligations.

At 31 December 2000, Government organisations in Oman account for 52 % (1999: 55%) of the outstanding trade accounts receivable. At 31 December 2000, there were no other significant concentrations of credit risk.

Interest rate risk

The Company's manages its exposure to interest rate risk by utilising only short-term financing.

SHELL OMAN MARKETING COMPANY SAOG**Notes**

(forming part of the financial statements)

17 Financial instruments (continued)*Foreign currency risk*

The Company is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in foreign currencies other than Rial Omani. The Company has a small net exposure to the

purchases of base oils, additives, sea freight and miscellaneous items. The Rial Omani is pegged to the USD. The Company's practice is to utilise USD forward exchange contracts to hedge its exposure in respect of any USD denominated borrowings.

Fair value

As at 31 December 2000, the fair value of financial assets and liabilities approximate their carrying values due to their short-term maturities or demand nature.

18 Contingent liabilities

At 31 December 2000, the Company has issued guarantees amounting to approximately RO 1,794,000 (1999: RO 1,763,000) in respect of contract performance.

19 Capital commitments

At 31 December 2000, the Board of Directors have authorised future capital expenditure commitments amounting to approximately RO 580,000 (1999: RO 509,000).

20 Comparative information

Prior year figures have been restated to reflect the change in accounting policy for dividend [note 2 (o) and note 15].

Prior year figures have been reclassified to conform to the presentation adopted in these financial statements.